

Panorama

May 2023

Introducing 'Panorama'



I am delighted to announce the launch of our inaugural macro and markets report - Panorama. This report aims to provide you with a comprehensive view of the contemporary topics surrounding the Indian economy.

The name 'Panorama' was carefully chosen to reflect the essence of this report. Just as a panorama offers a wide, sweeping view of a landscape, our report will present a panoramic overview of the macroeconomic factors and market trends that shape the Indian business landscape. We believe that gaining a holistic understanding of these dynamics is crucial for making informed decisions and staying ahead of the curve in today's rapidly evolving economic environment.

In Panorama, we will cover a wide range of topics, including but not limited to economic indicators, policy updates, market trends, global economic events, and geopolitical factors that could impact the Indian market. We are confident that Panorama will serve as an invaluable resource, empowering you with the knowledge needed to navigate the complexities of the Indian economic landscape.

Anup Maheshwari
Co-Founder & Chief Investment Officer
360 ONE Asset



India outperforms other major economies in both manufacturing and services PMI

- India's manufacturing PMI recording consecutive months of strong expansion, while other large economies are witnessing contraction
- Services activity is performing much better than manufacturing across the world



Upward revision in global growth forecasts due to positive data surprises

- India's export-oriented sectors may not be as badly affected as expected if global data releases continue to be strong



India's bank credit growth in FY23 at multi-year highs on robust retail credit demand

- Retail credit growth driven by recovery in consumer credit (PL, LAP, vehicle loan, credit card etc.)
- Consumers are now much more optimistic about discretionary spending



El Niño anticipated to develop during the monsoon season

- During El Niño events, the monsoon has been below normal or deficient 69% of the time since 1950
- Dependence of Agri sector on monsoon has steadily come down with increase in share of allied activities
- Weak or uneven monsoon is the most prominent near-term risk to inflation trajectory

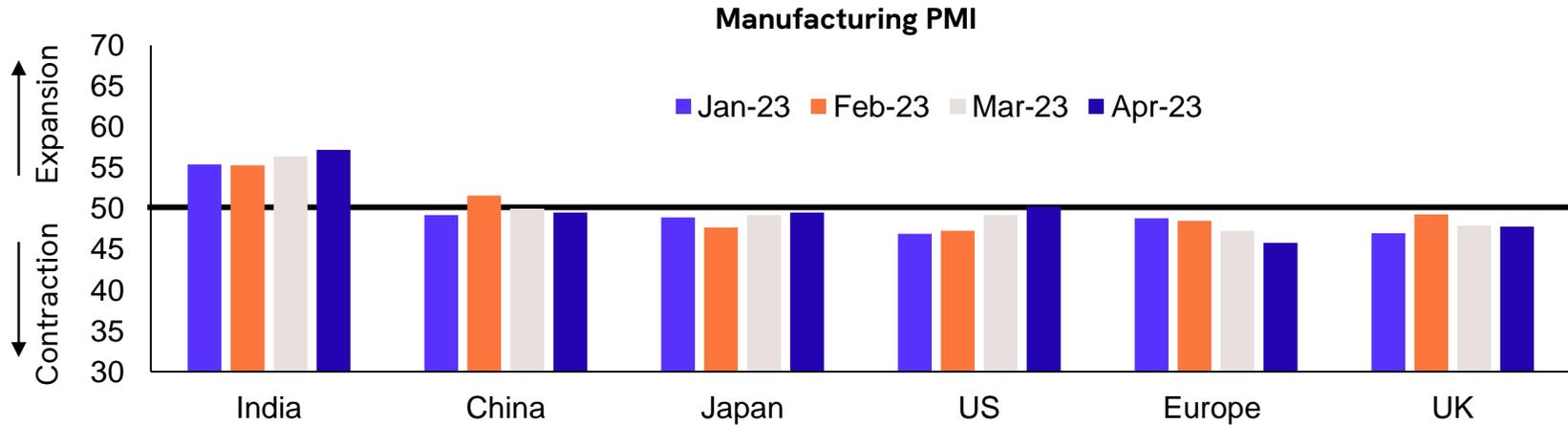


India jumps 6 places in World Bank's Logistics Performance Index

- Government is focused on improving transport infrastructure with logistics accounting for 33% share of National Infrastructure Pipeline

India outperforms other major economies

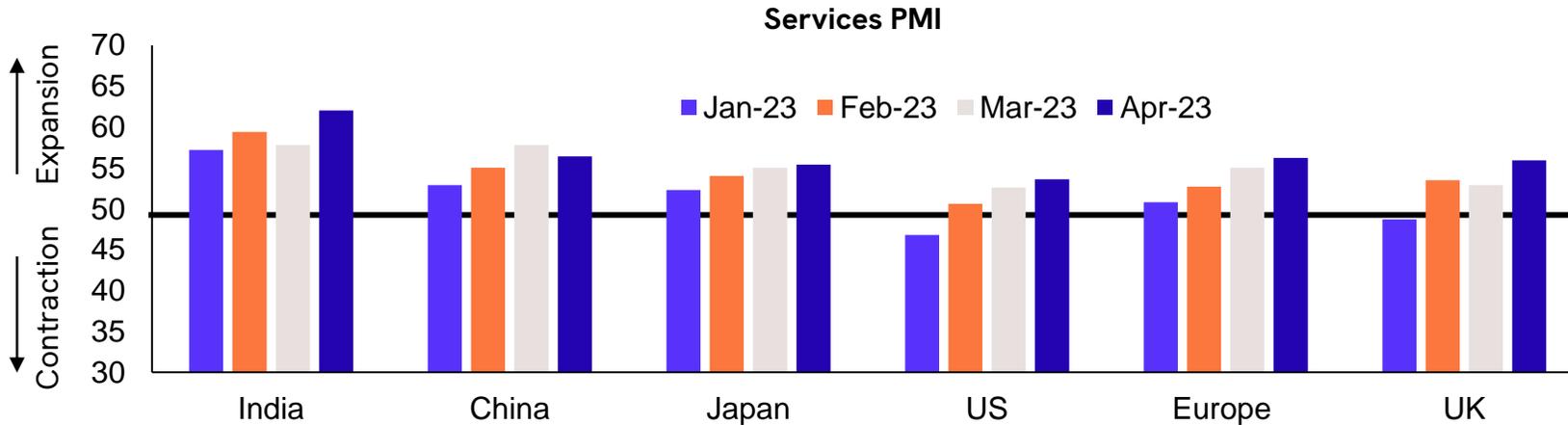
India's Purchasing Managers' Index (PMI) demonstrating superior performance in both manufacturing and services



India's manufacturing PMI is performing exceptionally well, recording consecutive months of strong expansion

Other large economies are witnessing contraction in manufacturing activity

China's growth is losing steam, as indicated by the contraction in April



India services PMI recorded highest expansion in 13 years

Services activity is performing much better than manufacturing across the world

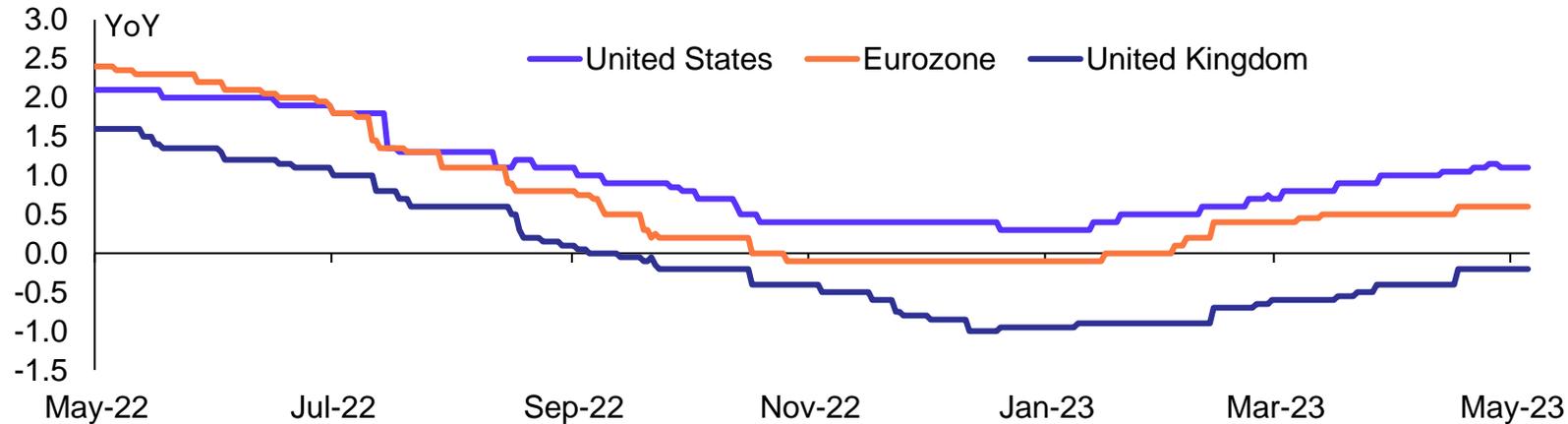
Strong services continue to contribute to inflation, despite decrease in goods inflation

Source: Bloomberg, 360 ONE Asset Research

Upward revision in global growth forecasts

Despite recession risks, growth forecasts are being revised upwards due to positive data surprises

Growth Forecasts 2023

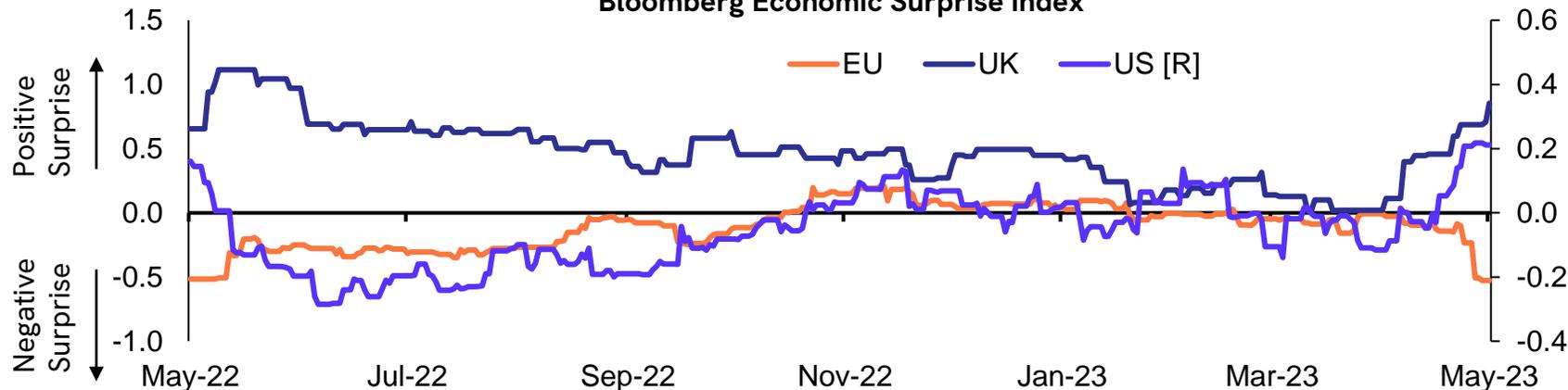


Despite all the talks of recession, forecasts for economic growth in the US and Eurozone still depict minor expansion

Consensus view shifting from 'hard landing' to 'mild recession'

UK likely to be the only region to witness contraction in output

Bloomberg Economic Surprise Index



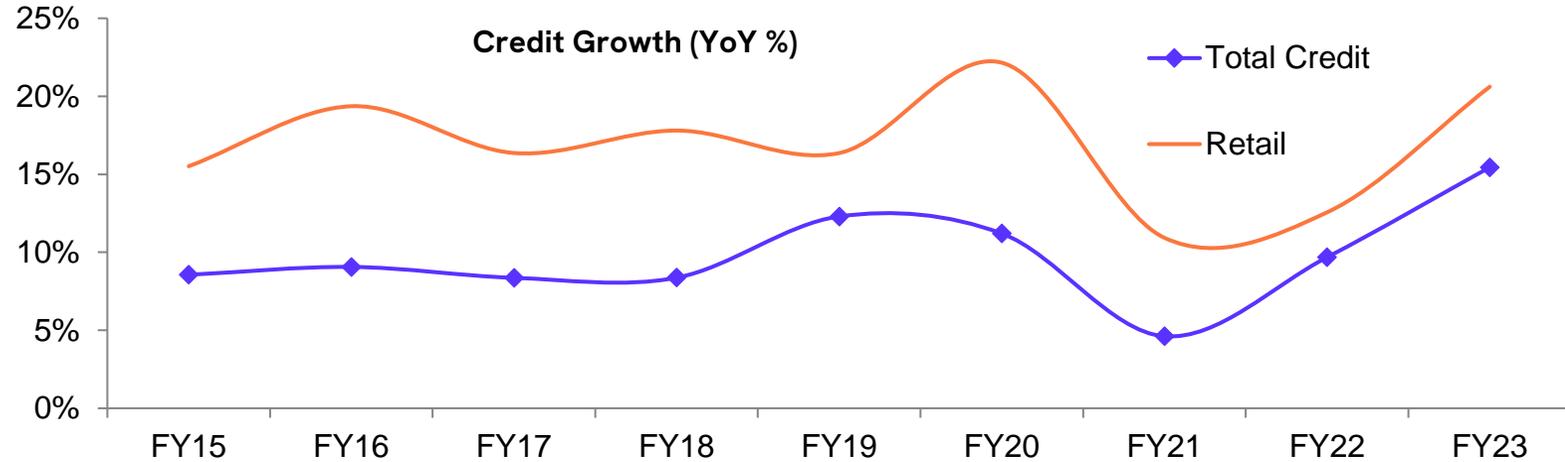
Surprise indices measure degree of deviation between economic data releases and market expectations

Positive data surprises leading to upward revision in growth forecasts

India's export-oriented sectors may not be as badly affected as expected if global data releases continue to be strong

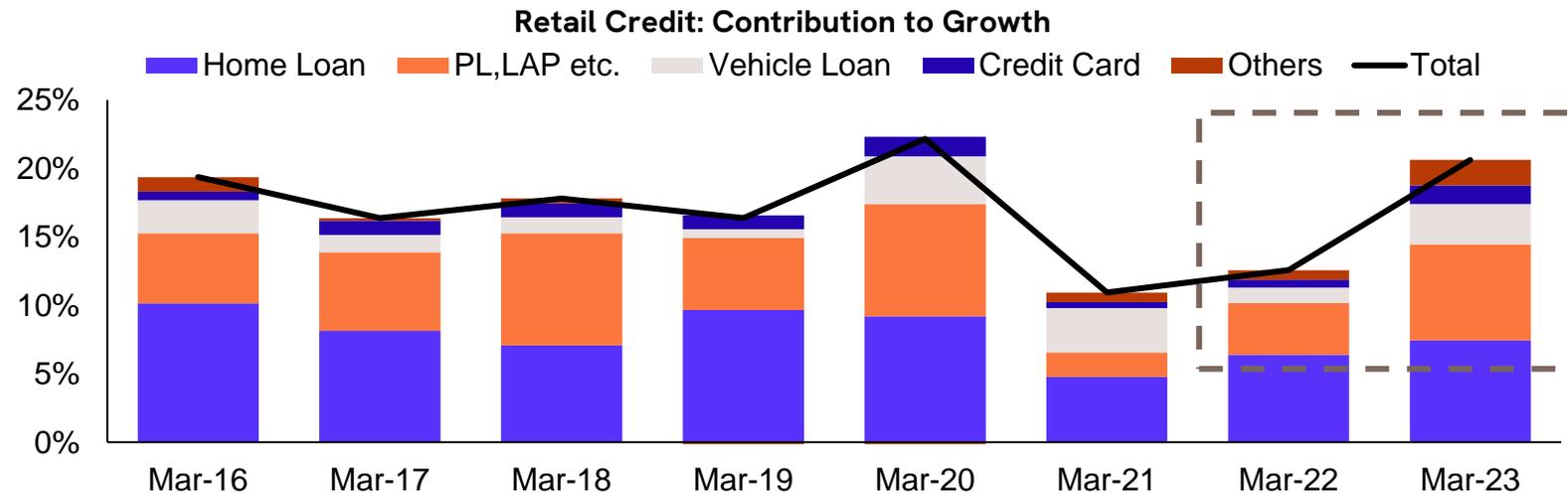
India's credit growth in FY23 at multi-year highs

Surge in credit demand is driven by a recovery in retail credit growth, reaching 20% YoY in FY23



Credit growth at 15.4% YoY in FY23, highest since FY12

Recovery in retail credit boosts overall credit growth



Retail credit growth driven by recovery in consumer credit (PL, LAP, vehicle loan, credit card etc.)

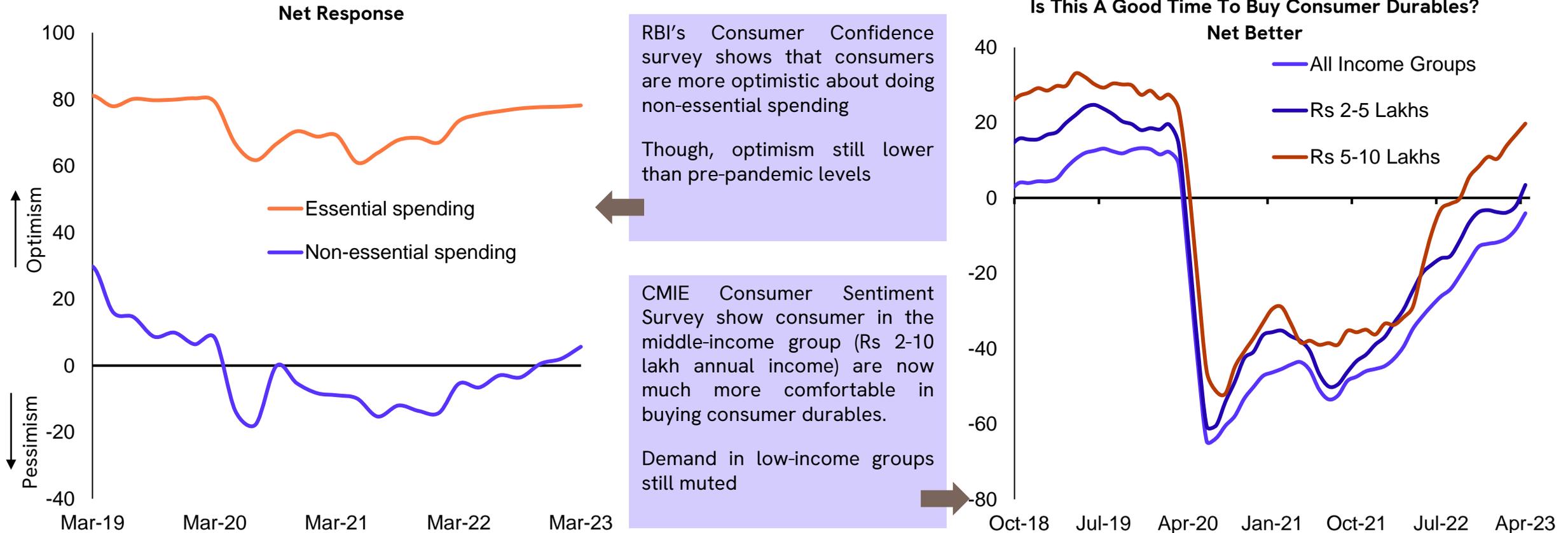
PL & LAP segment witness strong growth of 25.4% YoY in FY23

Demand for vehicle loan recovers in FY23, up 25% YoY, from 9.3% in the previous year

Source: RBI, 360 ONE Asset Research

Consumers display confidence in making discretionary purchases

Multiple consumer confidence surveys show consumers exhibiting a preference for non-essential spending

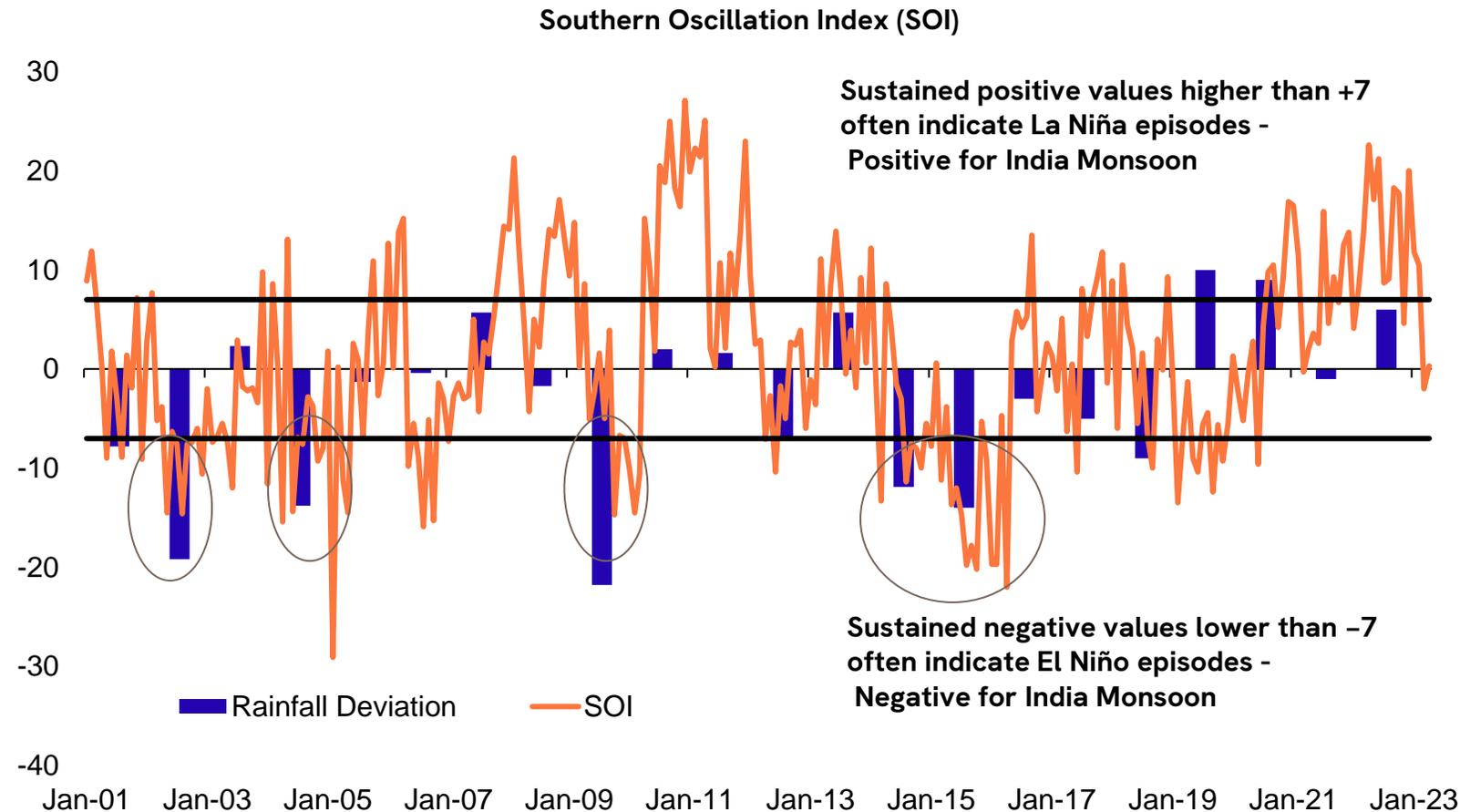


"Net Response" – difference between the percentage of respondents reporting optimism and those reporting pessimism.

"Net Better" – difference between percentage of respondents reporting "better" and "worse"

El Niño anticipated to develop during the monsoon season

Weak monsoon could adversely impact agricultural production and lead to higher food inflation



The Southern Oscillation Index, or SOI, gives an indication of the development and intensity of El Niño or La Niña events in the Pacific Ocean

Sustained negative values of the SOI lower than -7 often indicate El Niño episodes. Sustained positive values of the SOI greater than +7 are typical of a La Niña episode

SOI is currently in neutral zone

According to World Meteorological Organization, there is a 60% chance of transition from neutral to El Niño during May-July 2023, and this will increase to about 70% in June-August and 80% between July and September

El Niño adversely affects the Indian monsoon, leading to reduced rainfall and potential agricultural disruptions

Clear correlation between El Niño and weak monsoon

During El Niño events, the monsoon has been below normal or deficient 69% of the time since 1950

	El Niño	La Niña	Neutral	Total
Deficient [$<90\%$]	10	0	5	15
Below Normal [90-95%]	1	2	6	9
Normal [96-104%]	3	4	19	26
Above Normal [105-110%]	2	7	5	14
Excess [$>110\%$]	0	5	4	9
Total	16	18	39	73
Prob. of Below Normal or Deficient Monsoon	69%	11%	28%	33%

Out of the 16 El Niño events recorded since 1950, the monsoon has been deficient ($<90\%$) in 10 of them.

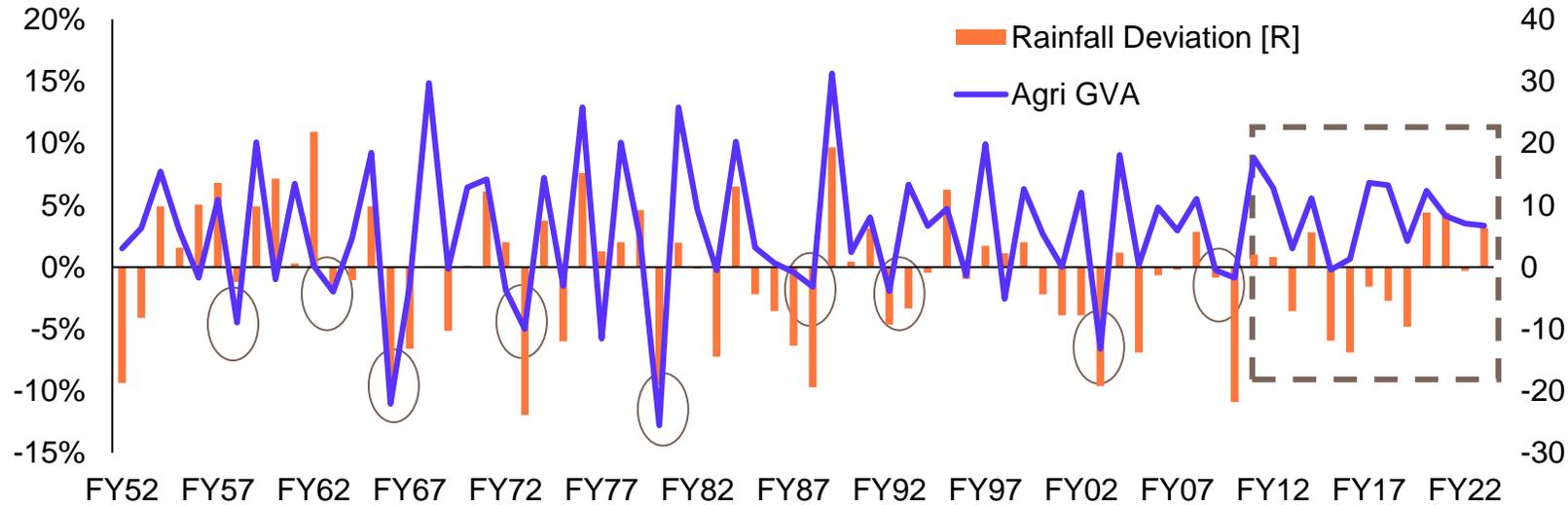
In 5 cases, the monsoon has been either normal or above normal during El Niño events

During El Niño events, the probability of a weak monsoon increases to 69%, compared to only 28% during neutral conditions

Source: CMIE, IMD, NOAA – US Department of Commerce, 360 ONE Asset Research

Dependence of Agri sector on monsoon has steadily come down

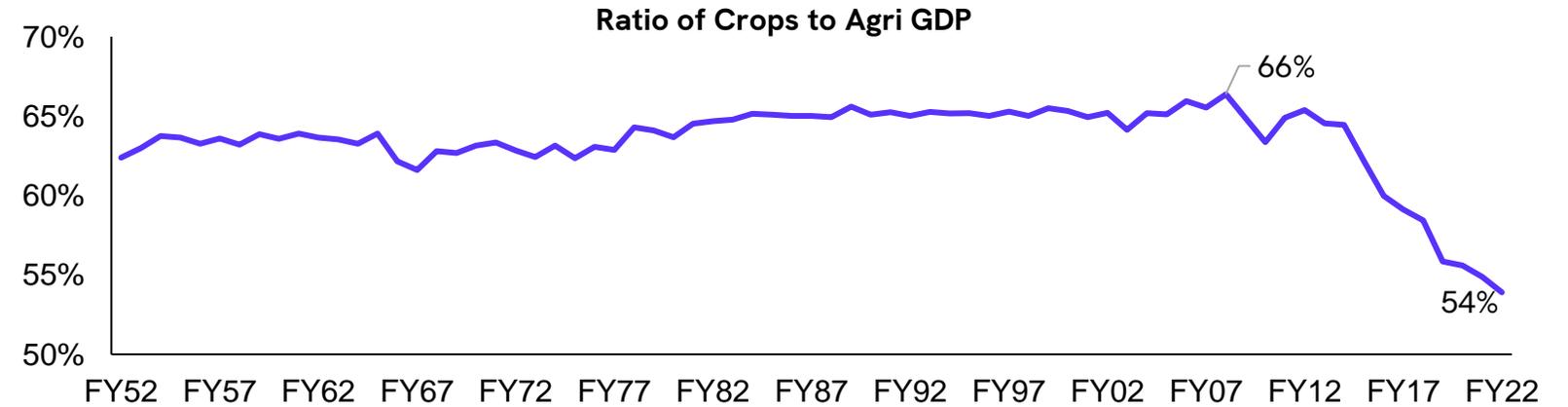
Weak monsoon had limited impact on agriculture growth in the last decade



Historically, there has been a direct impact of monsoon deficiency on agricultural gross value added (GVA)

Agricultural GVA witnessed contraction in multiple years due to weak monsoons (circled)

However, over the past decade, the agricultural sector has reduced its dependence on monsoons, resulting in limited impact from poor rainfall



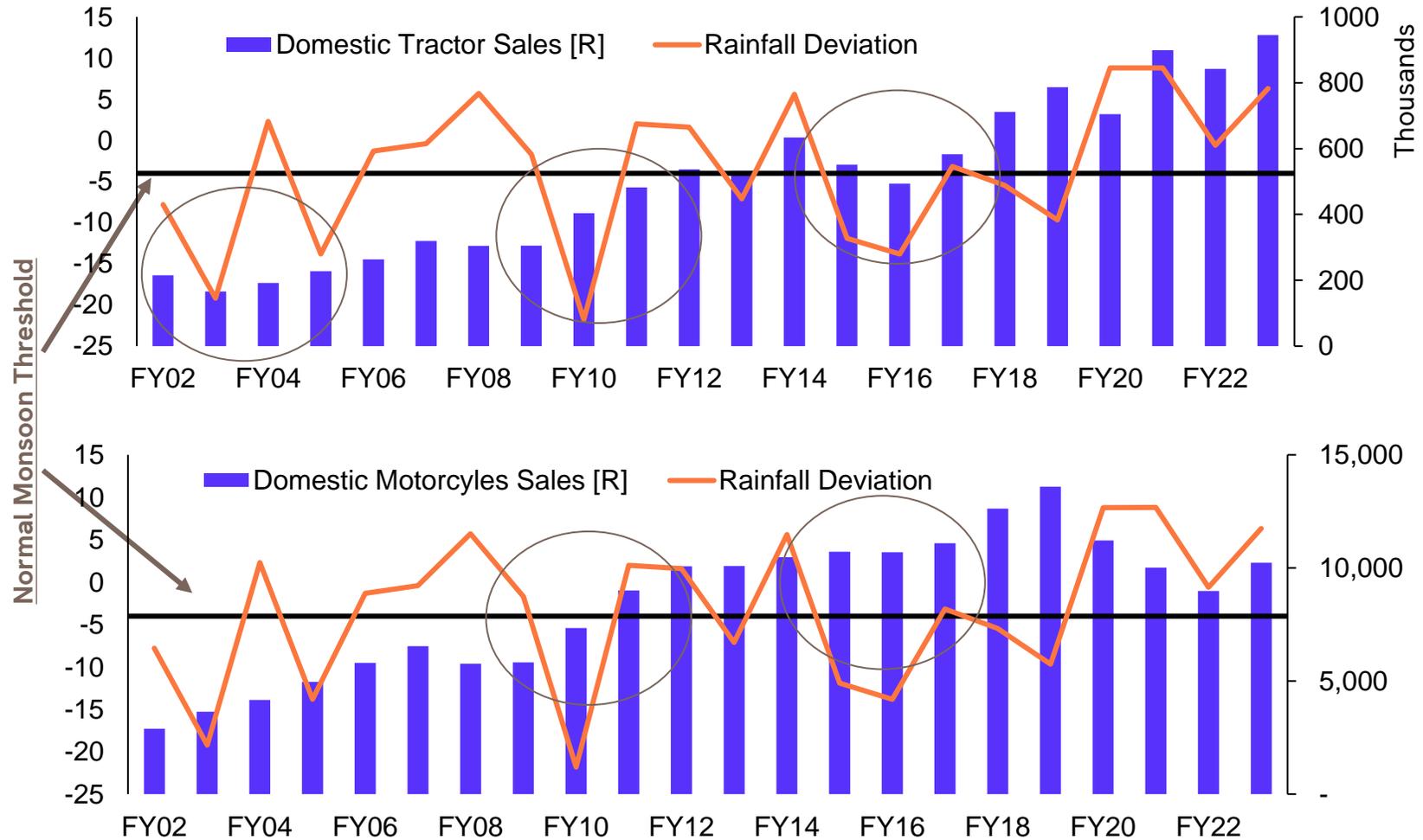
Share of crops in total Agri GDP has steadily come down from 66% in FY08 to 54% in FY22

Ancillary activities like animal husbandry, forestry and fishing have gained share, reducing dependence on monsoon

Source: CMIE, IMD, 360 ONE Asset Research

Mixed evidence on impact of weak monsoon on vehicle sales

Expect moderation in tractor sales growth and a delayed recovery in the 2-wheeler sales if monsoon disappoints



Weak monsoon had a clear impact on tractor sales in FY03, FY15 and FY16

However, tractor sales were not impacted in FY10, despite a steep monsoon deficit of 22%. In fact, sales grew by 32% YoY during that year.

Tractors sales witnessed growth of 12% YoY in FY23. Expect moderation in growth in the event of weak or erratic monsoon.

Similar trends can be seen in the sales of motorcycles

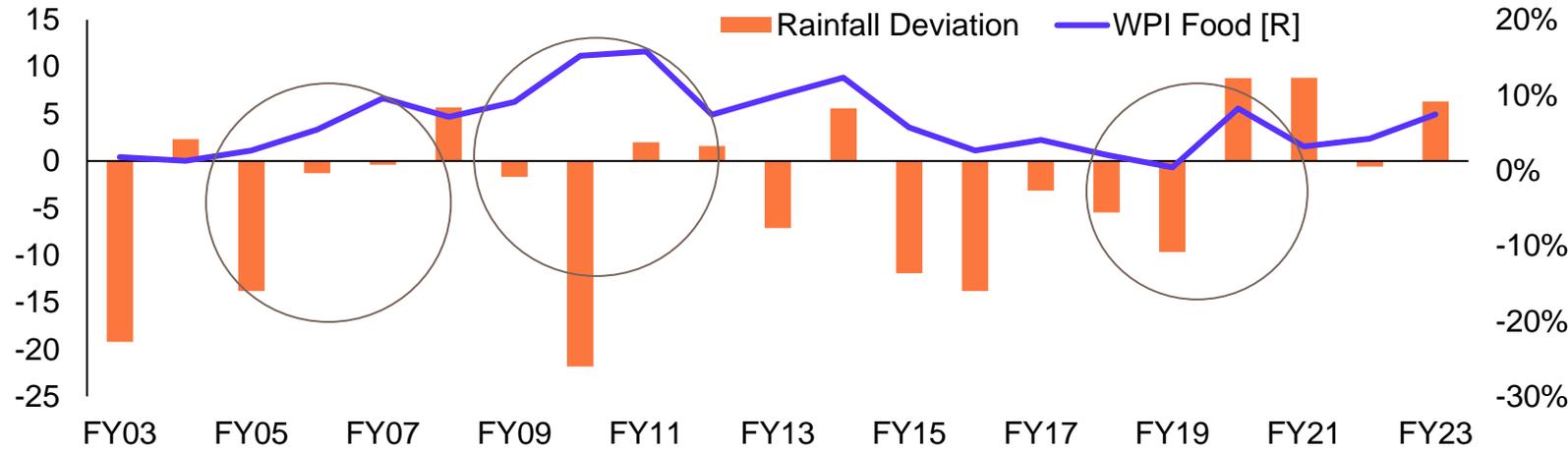
Motorcycle sales flatlined during 2014-2016 on weak monsoon

Farm loan wavier announced in Budget FY09 could have supported rural consumption despite a very weak monsoon in FY10

Source: CMIE, IMD, 360 ONE Asset Research

Weak monsoon tends to push food inflation higher

Weak or uneven monsoon is the most prominent near-term risk to inflation trajectory

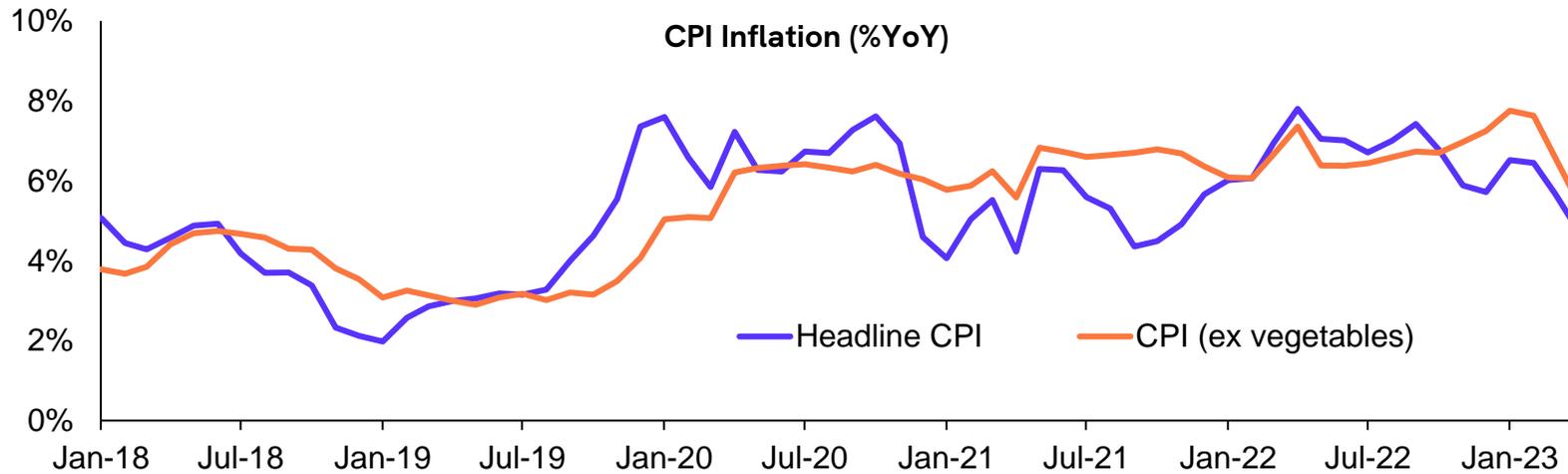


Monsoon deficiency tends to drive up food prices with a lag

FY05-FY07 witnessed high food inflation due to consecutive years of weak monsoon

FY09-FY11 experienced double-digit food inflation due to combination of a weak monsoon and fiscal stimulus

Food inflation surged in FY20 following a 10% deficient monsoon in the preceding year



Uneven spatial or temporal distribution of the monsoon could affect vegetable prices

Currently, vegetable prices are experiencing deflation, contributing to lower headline inflation

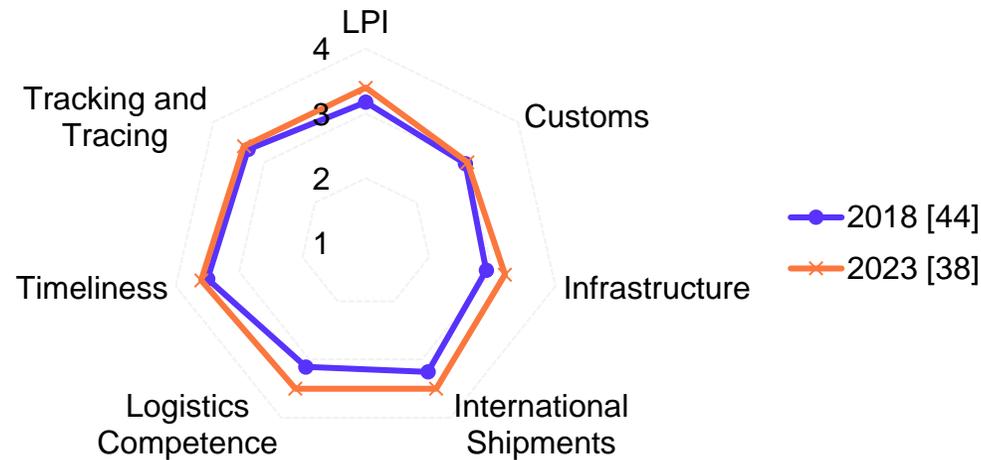
If the erratic monsoon affects the supply of vegetables, especially potatoes, tomatoes, and onions, inflation could experience a significant increase

Source: CMIE, IMD, MOSPI, 360 ONE Asset Research

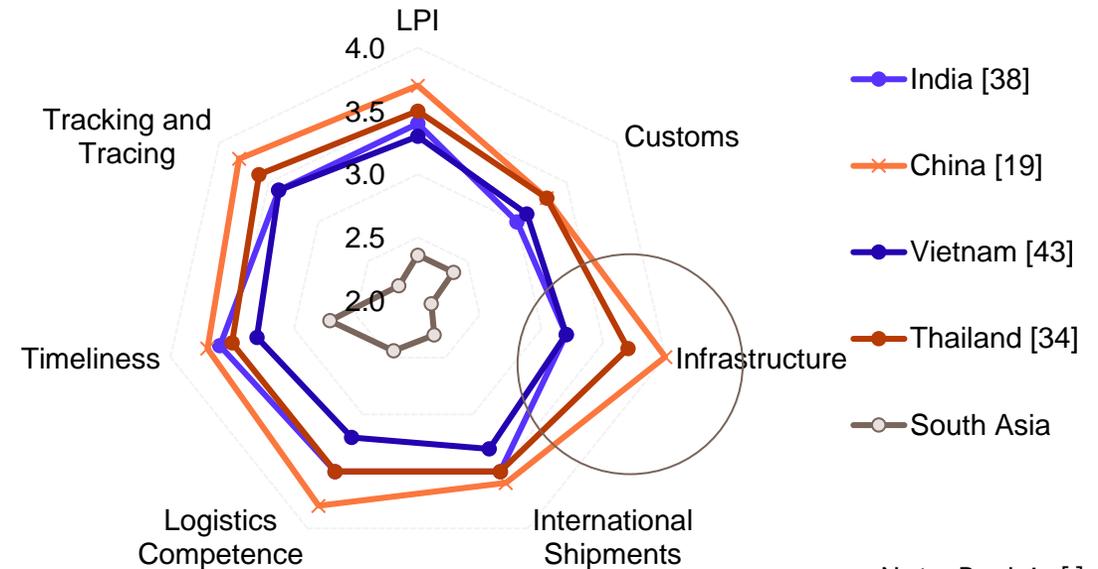
India jumps 6 places in World Bank's Logistics Performance Index

Significant shortfall in transport infrastructure in comparisons to China and Thailand

India Logistics Performance Index Scorecard



India Logistics Performance Index Scorecard (2023)



Note: Rank in []

The logistics performance (LPI) is the weighted average of the country scores on the six key dimensions:

Customs: Efficiency of the clearance process (i.e., speed, simplicity and predictability of formalities) by border control agencies

Infrastructure: Quality of trade and transport related infrastructure

International Shipment: Ease of arranging competitively priced shipments

Logistic competence: Competence and quality of logistics services

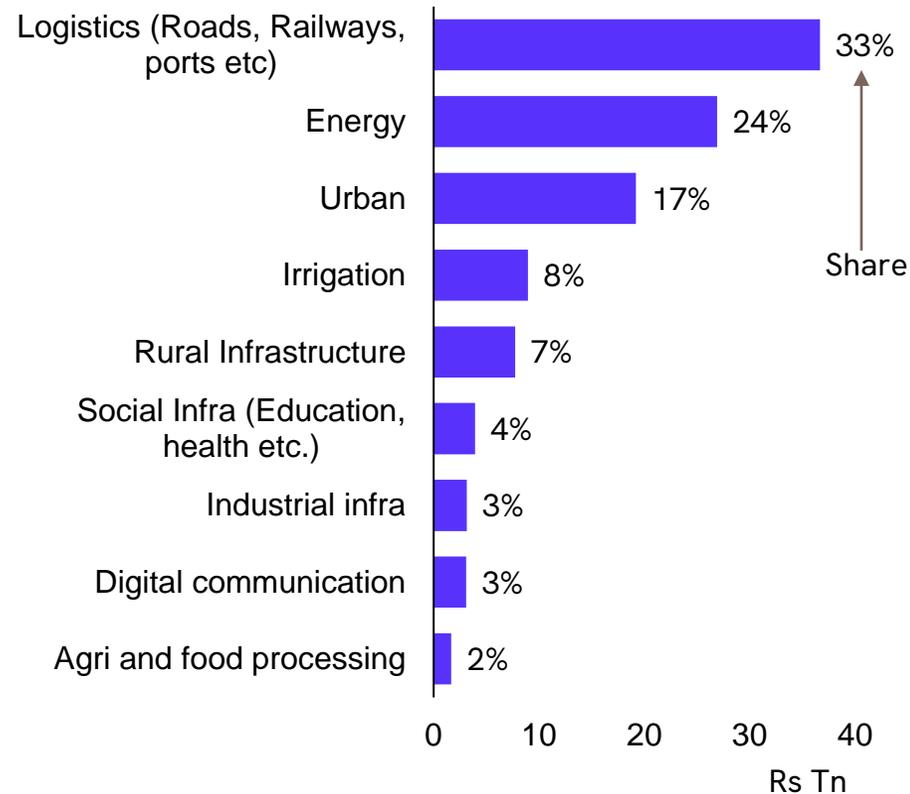
Competence and quality of logistics services: Ability to track and trace consignments

Timeliness: Timeliness of shipments in reaching destination within the scheduled or expected delivery time

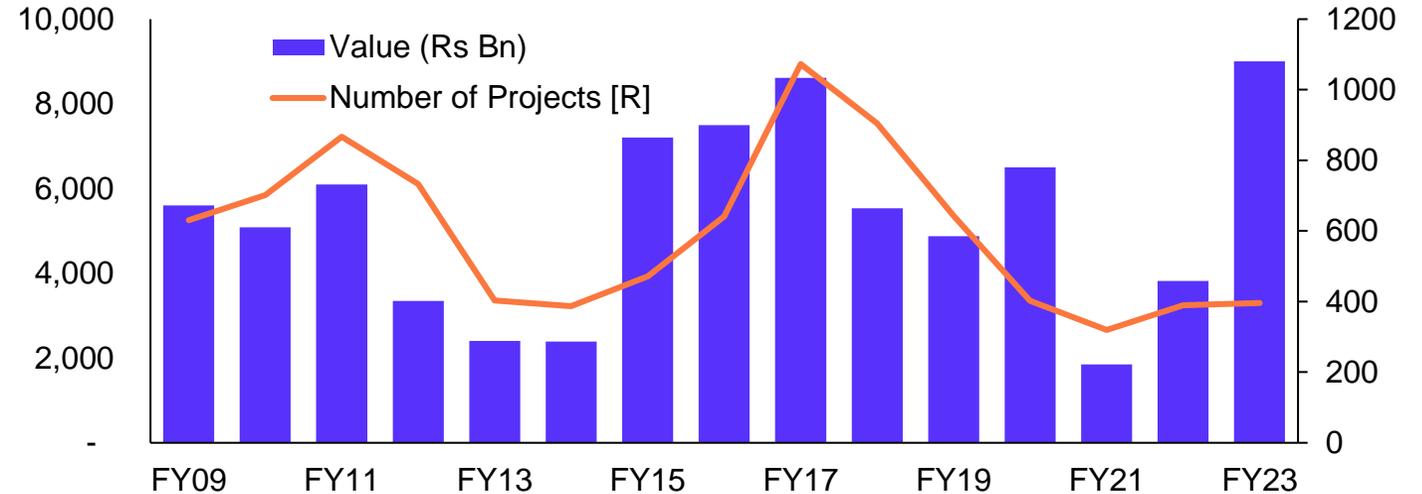
Government focused on improving transport infrastructure

Logistics sector accounts for 33% share of National Infrastructure Pipeline

National Infrastructure Pipeline (FY20-25)



Logistics Sector Capex Announcements



Logistics sector accounts for the highest share (33%) of Rs 111 tn capex under the National Infrastructure Pipeline

CMIE data shows steep pick up in value of announcements in logistics sector in FY23. But a large part of the increase is Air India order for aircrafts

National Logistics Policy was launched in Sep'22 to lower the cost of logistics from the existing 13-14% to 7.5% in five years

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IIFL Asset Management Limited (AMC) is now 360 ONE Asset. We are in the process of renaming our schemes and strategies, subject to applicable regulatory and statutory approvals & intimations.



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