India

July 2021

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services	Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles

Source: Atradius

Industry performance

Changes since January 2021 · Sources: Atradius, Oxford Economics

Agriculture

Remains Fair

The impact of the ongoing pandemic situation on agriculture performance has been limited, as during the spread of infections in rural areas in May agricultural activities remained low. The sector is expected to benefit from a normal monsoon season, with value added forecast to increase 8%.

Automotive/Transport

Remains Fair

In 2020 automotive value added contracted 26.2% due to the pandemic. Besides a sales downturn, several auto manufacturer plants remained closed during the lockdown in H1 of 2020. Personal vehicle sales rebounded in H2 of 2020 and Q1 of 2021, due to increased preference for personal mobility during the pandemic.

However, the ongoing second wave of the pandemic has adversely affected automotive performance. In April 2021 car registration contracted by 32% compared to April 2019 pre-pandemic levels, as renewed lockdowns in various states across the country impaired dealers from conducting business. That said, with a expected recovery in H2 of 2021 automotive value added is forecast to increase by about 25% in 2021.

Chemicals/Pharmaceuticals

Remains Fair

The renewed lockdown measures imposed in Q2 of 2021 have affected growth of the chemicals industry. Value added is forecast to increase by only 0.5% this year. However, the long-term outlook remains positive, supported by favourable demographics and demand from a rising middle class.

The short-term outlook for pharmaceuticals is still benign, as demand has increased due to higher health expenses. Pharmaceuticals value added is expected to increase by about 5% in 2021 after growing 4.8% in 2020. India should benefit from the fact that companies are reviewing their supply chains, following the pandemic-related disruption of deliveries from China in early 2020.

Construction/ Construction Materials

Remains Poor

Construction value added decreased 12.9% in 2020. The public construction sector (which accounts for most investments in the infrastructure segment, including electricity, water and sewage utilities) remains constrained by a widening fiscal deficit due to lower revenues and higher social expenditure during the pandemic. Private construction investment in hotels, restaurants, malls, theatres and cinema halls, offices, and educational buildings is likely to suffer in the short-term, as these sectors have been heavily affected by the pandemic. With gradual revival of the economy and more government infrastructure spending, a rebound could gain momentum in H2 of 2021.

Consumer Durables

Remains Fair

In 2020 retail value added contracted by 16.4%, as private consumption of non-food consumer goods deteriorated due to the coronavirus impact, with many businesses temporarily closed due to the lockdowns in H1 of 2020. While sales deteriorated in Q2 of 2020 2020, there was a gradual recovery in H2 and in early 2021, due to pent-up demand and festive sales.

However, the second wave of the pandemic has caused another sales disruption, with temporary lockdowns resulting in shutdowns of retail stores and showrooms in most parts of the country. That said, currently a rebound is expected in H2 of 2021, given declining coronavirus cases and a faster vaccination rollout. Retail value added is expected to increase by more than 13% in 2021.

Electronics/ICT

Up from Poor to Fair

Over the past couple of years, ICT key drivers were robust economic growth, growing disposable income and penetration into rural markets. However, ICT sales deteriorated in 2020 due to the temporary closure of businesses during the lockdown measures, and payment delays in the ICT sector increased, especially in the project-related supplies segment.

That said, some ICT businesses have benefited, as demand for laptops and IT products saw some growth, as working from home and home schooling increased. Increased penetration, especially through online sales in Tier I-III cities, as well as new launches (e.g. in the mobile segment), will continue to drive growth in the near term. After a 17% contraction in 2020, ICT value added is expected to rebound by the same amount in 2020, and to grow by more than 7% in 2022.

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Industry performance

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Financial Services

Remains Fair

The Indian banking sector (especially the public sector bank segment) remains under stress, with a high level of non-performing assets, which has resulted in tightening of lending conditions and of due diligence processes. However, a government recapitalization programme, which includes consolidation of banks, is ongoing to support the sector. Additionally, the Insolvency and Bankruptcy Code from 2016 has helped to improve corporate repayment discipline to some extent.

Food

Remains Good

The impact of the second wave of the pandemic on food logistics and supply chains has been limited so far. Food value added is forecast to increase by more than 11% in 2021, driven by robust consumer demand.

Machines/Engineering

Remains Poor

Engineering value added contracted by 15.7% in 2020. With the economic rebound forecast for 2021, the sector is likely to benefit. However, its recovery is expected to be slow and gradual, with pre-pandemic levels reached 2022 at the earliest. Currently engineering is expected to recover by about 10% in 2021.

Metals

Remains Poor

Even before the coronavirus outbreak, the industry already suffered from fierce competition and lower demand. Many Indian metals businesses are highly leveraged and heavily dependant on bank financing for their working capital requirements. However, banks have been unwilling to provide credit to the industry, which has caused additional liquidity issues for many businesses. With the economic rebound forecast for 2021 the sector is likely to benefit, but its recovery is expected to be slow and gradual.

Paper

Remains Poor

Paper producers have been affected by less demand due to the lockdown measures in 2020 an 2021, lower economic growth and the ongoing digitalization. The sector is impacted by fierce competition and working capital pressure for many businesses. Value added of the industry contracted by 20% in 2020, with a 16% rebound forecast for 2021.

Services

Remains Poor

Due to the comprehensive lockdown measures in early 2020 and again in Q2 of 2021 and the ongoing pandemic, many segments have suffered heavily, especially hotels and catering, restaurants, bars, entertainment and cultural events, travel agencies and tour operators. Hotel and catering value added contracted 14% in 2020. In the affected segments, payment delays have increased. Currently a rebound is expected in H2 of 2021, supported by declining coronavirus cases and a faster vaccination rollout. Service value added is forecast to increase by about 5% this year.

Steel

Remains Poor

Many Indian steel businesses are highly leveraged and heavily dependant on bank financing for their working capital requirements. However, banks have been unwilling to provide credit to the industry, which has caused additional liquidity issues for many businesses. With the economic rebound forecast for 2021, the sector is likely to benefit from higher demand from automotive and a resumption of government infrastructure projects.

Textiles

Remains Poor

Textile producers have been negatively affected by supply chain disruptions due to the coronavirus-related lockdowns. At the same time, the performance of wholesalers and retailers deteriorated due to low sales. Domestic and export sales have remained subdued so far. With the expected economic recovery in H1 of 2021 clothing value added is forecast to grow 16% this year, after a whopping 26% contraction in 2020.