



ASIA PERSPECTIVE

Insights: October-December quarter, 2021

India Economic Update Report

This Issue:

India's Economic Performance in
October-December quarter

India's new solar capacity rose by 210%
YoY in 2021

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India's economy grew by 5.4% in the October-December quarter of 2021

India registered the fifth consecutive quarter of positive growth in the third quarter of FY22. The GDP grew by 5.4%, as economic activity returned to near-normal after the easing of COVID-related disruptions. The growth is slower than the previous two quarters amid the rising risks of a price increase in crude oil and commodity.

The Indian economy lost momentum in the final quarter of last year with growth slowing down compared to the previous two quarters. GDP grew by 5.4% YoY during the October-December quarter, slower than the expected 5.9%, and far below the 20.3% growth registered in the April-June quarter and 8.5% growth July-September. The slowed down growth is expected to spill over to Q4 due to the spread of the COVID-19 Omicron variant and the adverse impact of spikes commodity prices fueled by the Russia-Ukraine conflict.

However, analysts believe some of these risks could be offset by increasing government spending and by providing accommodative monetary policies. As higher oil and gas prices may dampen domestic demand sentiment, growth in GDP during the financial year 2021-2022 is estimated to land at 8-8.9%.

India's GDP growth in Q3 was primarily driven by a strong growth of 16.8% in the services sector and the rise in private final consumption expenditure. While the growth in agriculture slowed in Q3, the construction sector recorded a decline in gross value added (GAV).

Exports exceeded 300 billion USD in the first nine months of 2021-22

India's exports reached a cumulative value of 300 billion USD in April-December of FY22, growing nearly 50% compared to the same period FY21, and 25.8% compared to FY20.

Official data from India's Ministry of Commerce and Industry also revealed that in the October-December quarter (Q3), exports reached a cumulative value of 103 billion USD, the highest ever in any Q3.



Source: Ministry of Commerce and Industry, India

Exports accounted for over 20% of India's GDP in Q3 FY22, up from 17.8% the same period the previous year. This was mainly driven by the increasing commodity prices and demand in global trade demand.

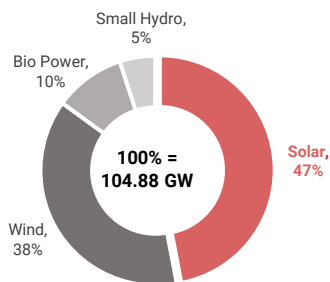
India's new solar capacity rose by 210% YoY in 2021

India added 10 gigawatts (GW) to the total solar capacity in the calendar year (CY) 2021, compared to 3.2 GW in CY 2020, resulting in a YoY growth of 210%. Installations in CY 2021 was the highest ever recorded in India.



Approximately 49.3 GW of solar capacity has been installed by India to date, taking up 47% of total renewable energy installations, and 12.4% of total installed energy output as of December 31st, 2021.

India's cumulative Installations of RE - December 31st, 2021



Source: MNRE, JMK Research

Utility-scale projects (solar projects generating more than 1 megawatt of solar energy) accounted for 83% of the total installations 2021, with 8.3 GW of new installations in 2021, a 230% surge compared to 2020. Rooftop installations accounted for the remaining 17%, with 1.7 GW of new installations, increasing 138%.

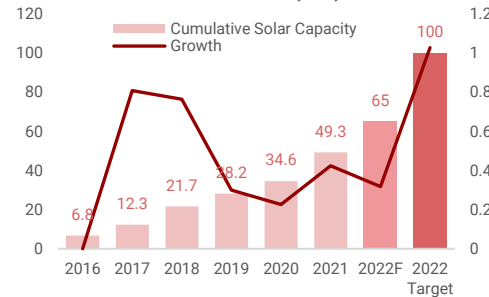
Rajasthan, Karnataka, and Andhra Pradesh were the top 3 states for cumulative large-scale solar capacity, accounting for 50% of the installations in the country by December 2021. Capacity addition in Rajasthan was 4.5 GW, the highest among the three.

The government of India (GOI) set an ambitious goal of reaching 100 GW installed solar capacity by 2022 – around 25% of India's current total energy output. Various schemes have been launched to encourage solar power investment in India, e.g., Solar Park Scheme, VGF Schemes, CPSU Scheme, Defense Scheme, Grid Connected Solar Rooftop Scheme, etc.

The government also implemented multiple policy measures to promote the renewable energy industry and solar sector, including the Declaration of trajectory for Renewable Purchase Obligation (RPO) up until 2022, which includes Solar, and the Waiver of Inter-State Transmission System (ISTS) charges of solar and wind power for projects to be commissioned up to March 2025.

However, up until 2021, India has only been able to meet nearly 50% of the targeted capacity. Bridge to India researchers forecasted that the country would end 2022 with a cumulative 65 GW of solar capacity installed, much less than the GOI's target and 10% less than the growth 2020.

Cumulative solar capacity, 2016-2022F (GW)



Source: MNRE, BTI

The forecast factored in the challenges that await the industry in 2022. A few of them include custom duty, import restrictions, goods and services tax, on top of global supply chain issues and high component prices. Project cost was also reported to be higher in 2021, compared to the previous years, due to higher module, raw material prices and freight charges. Despite ongoing concerns, the demand outlook for 2022 remains strong.



Currently, India is the 5th largest country in solar energy deployment and 3rd fastest expanding solar power program (only behind China & USA).

Indian government announces the development of seven mega textile parks

In October, the government of India (GOI) issued a notification for setting up seven mega textile parks under the PM Mega Integrated Textile Region and Apparel (PM MITRA) Parks scheme. As per the scheme, the government will transfer land to the Special Purpose Vehicle – a legal entity with 51% equity shareholding of the state and 49% of the center, to create an integrated textiles value chain at one location. The integrated textiles value chain would help reduce the cost of logistics for the industry.

According to an official statement, seven mega parks have a total outlay of ~548 million USD and are expected to generate over 100,000 direct and 200,000 indirect jobs per park. They will be set up at greenfield (new) and brownfield (existing) sites located in different states participating in the scheme.

For a greenfield PM-MITRA park, the GOI development capital support will be 30% of the total project cost, with a cap of ~61 million USD. The limit for brownfield support will be ~24.6 million USD. Early establishment of textile manufacturing units at the PM-MITRA park will be entitled to a competitiveness incentive support (CIS) of ~37 million USD.



The Textile Ministry expected that the world-class industrial infrastructure will attract cutting-edge technology and boost FDI and local investment in the sector.

After being hammered by the COVID pandemic, India's garment industry is now slowly recovering. Challenges in rising cotton prices and labor shortages remain. However, the mega parks bring high expectations that the industry will strengthen the country's position on the global textile map, especially after Vietnam and Bangladesh outpaced India in the sector during the pandemic.



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