



Brickwork Ratings expects RBI to maintain status quo in December MPC meeting

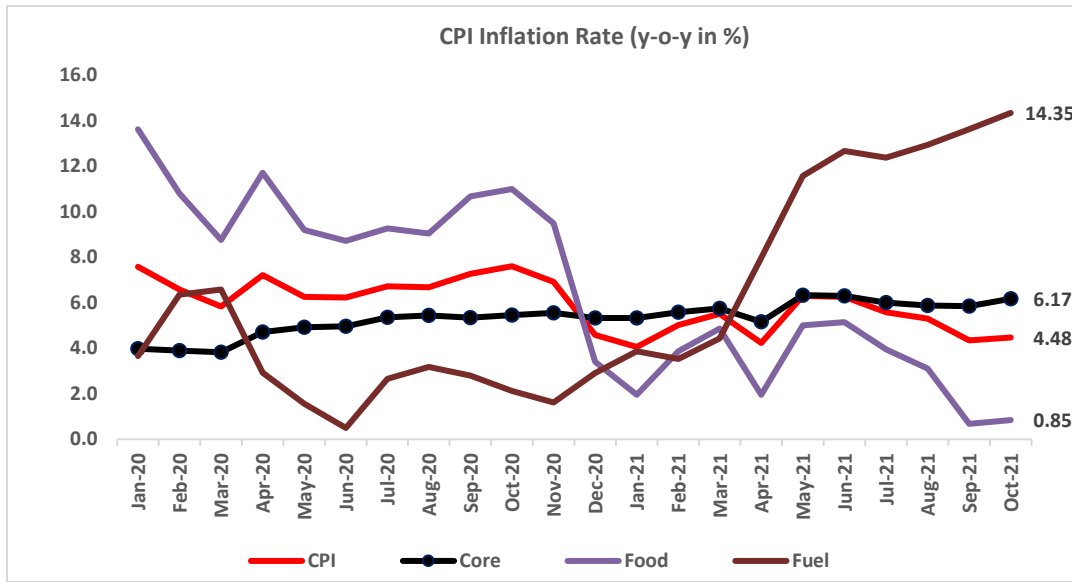
Brickwork Ratings, Bengaluru, 06 December 2021: The Monetary Policy Committee (MPC) is to announce the policy decision on 8 December in its bi-monthly monetary policy meeting. The better-than-expected GDP numbers for Q2FY22 have provided much-needed comfort to the MPC on the growth outlook, while the new Covid variant Omicron weighs concerns on sustaining this recovery. Supply-side concerns are impacting the price level as well, although decline in oil prices witnessed in the last couple of weeks should bring in some comfort. The RBI is likely to continue with its accommodative monetary policy stance for some more time, but to start draining out excess liquidity in the system by reducing open market purchases, considering the build-up in inflationary pressures. BWR expects the RBI MPC to adopt a cautious approach and hold the repo rate at 4%.

Growth Outlook: The latest estimates of the GDP for Q2FY22 released by the Ministry of Statistics and Programme Implementation (MOSPI) are more optimistic than what the market had expected. In Q2FY22, the GDP expanded by 8.4% (year-on-year) close to BWR's estimates of 8.3%. Agriculture activities continued to grow at a rate of 4.5%, while the industry and services sectors reported 6.9% and 10.2% growth, respectively. Growth in public administration, defense and other services has been encouraging due to the increase in public expenditures in Q2. On the expenditure components of the GDP, the increase in the gross fixed capital formation at 11.1% bodes well for the growth outlook. Pointing towards a robust recovery in the economic activities, the composite PMI output index rose to 59.2 in November (58.7, October) the highest since January 2012. Decline in the number of Covid-19 cases, coupled with an increasing proportion of the population having been vaccinated, paved the way for an upward revision in the growth outlook, while the emergence of a new Covid variant Omicron weighs renewed concerns. The RBI is likely to revise upwards its GDP growth outlook for FY22 in the December MPC.

Inflation Scenario: Since the October MPC meeting, the overall CPI inflation has eased, largely due to a favourable base effect; however, core and fuel inflation increasing, with the former crossing 6% in October 2021, is a matter of concern. Rising industrial raw material prices, higher transportation costs and a shortage of chips are impacting production and prices in a number of industries. Unseasonal rains in several parts of the country and elevated crude oil prices are likely to increase food and fuel inflation as well. International crude oil prices have come down in the last couple of weeks, although retail prices are yet to be impacted by the same. The transient effect of the input cost pressure emanating from rising commodities and supply constraints was already reflected in the WPI, and it could affect the CPI inflation in the near future. The surge in prices is mainly a supply-side phenomenon, but with surplus liquidity in the system, it may become a general inflationary



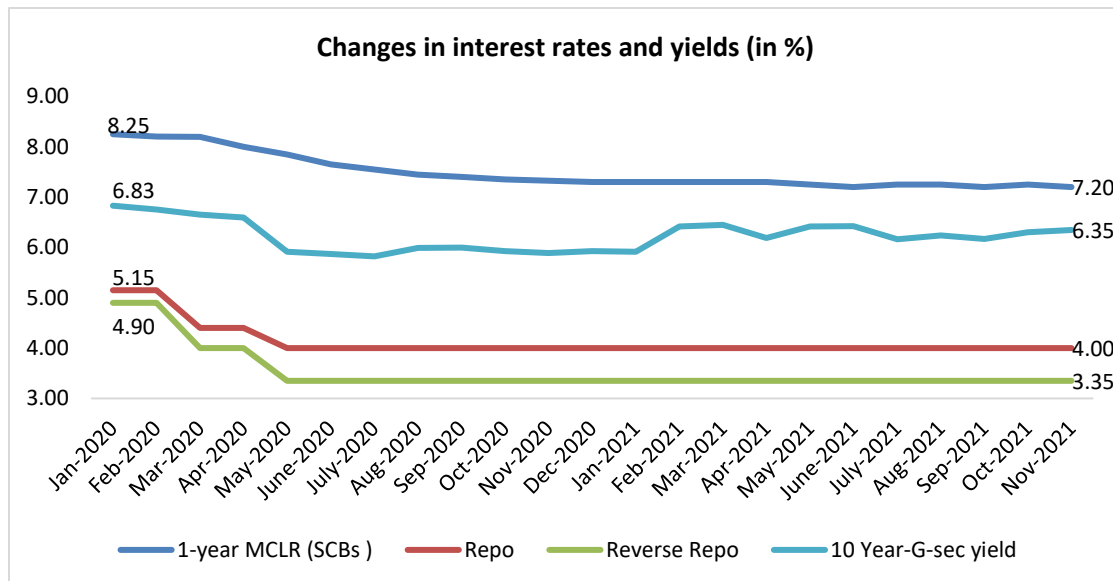
phenomenon. Although the overall CPI has been below the upper range of the inflation target rate of 6%, the threat of inflation in the near term is real. Hence, the RBI is advised to drain excess liquidity and monitor the situation closely.



Note: Data is provisional. Core inflation excluding food and fuel.
 Source: MOSPI, RBI, BWR Research

Interest Rates: To lessen the economic consequences of the Covid-19 pandemic, the RBI brought down the repo rate to a record low of 4% from 5.15% and has kept the rates unchanged since May 2020. Furthermore, to enable the smooth functioning of financial markets, the RBI announced additional liquidity boosting measures and sector-specific measures, and continued with the accommodative policy stance. All these measures helped keep the cost of funds low and restrict the hardening of yields despite increased government borrowings.

With the Fed beginning its tapering, there are clear indications that the interest rate structure has bottomed out. The inflation rate in the US is at a record high, and tapering will continue, although this is not likely to have a major impact on India unlike during the 2013 tapering. Although India is faced with the risk of inflation breaching the comfort zone, to a considerable extent, this is due to supply factors. With economic recovery gathering some strength, the RBI may begin the mopping of excess liquidity, in a calibrated manner. However, the RBI is likely to maintain the repo rate at the current levels at least in the current fiscal.



Note: MCLR refers to Marginal Cost of Funds based Lending Rate of Scheduled Commercial Banks.

Source: RBI, and BWR Research

Expectations from the RBI MPC

With consumer price inflation easing to 4.48% in October 2021, an improved supply situation on the back of the pandemic-led restrictions being relaxed, and capacity utilisation still in the recovery mode, there is no immediate pressure on the MPC to either alter interest rates or change the accommodative stance. The economy is well under recovery, however, the new Covid variant Omicron poses concerns on sustaining this recovery. Thus, we expect the MPC to maintain the accommodative stance in the current fiscal to nurse the economic recovery.

We expect the RBI MPC to adopt a cautious approach and hold the repo rate at 4%, and start draining out excess liquidity in the system, considering the risk of inflation emanating from the rising commodity prices and input costs. The outlook on inflation may remain unchanged for the current fiscal, while upwards revision in GDP outlook is likely. The statement is keenly awaited for its forward guidance on inflation and the GDP for the next fiscal.



Contacts:

Dr M Govinda Rao

Chief Economic Adviser

Anita Shetty

Senior Research Analyst

Investors & Media Contact

+91 95133 99706

1-860-425-2742

investordesk@brickworkratings.com

media@brickworkratings.com



ABOUT BRICKWORK RATINGS

Brickwork Ratings (BWR) is India's home-grown credit rating agency built with the superior analytical prowess of the industry's most experienced credit analysts, bankers and regulators. Established in 2007, BWR aims to provide reliable credit ratings by creating new standards for assessing risk and by offering accurate and transparent ratings. BWR provides investors and lenders timely and in-depth research across the structured finance, public finance, financial institutions, project finance and corporate sectors. BWR has employed over 350 working professionals including credit analysts and credit market professionals across 8 offices in India. Our experienced analysts have published over 12,000 ratings across asset classes. BWR is committed to providing the investment community with products and services needed to make informed investment decisions. BWR is a registered credit rating agency by Securities and Exchange Board of India (SEBI) and a recognised External Credit Assessment Agency (ECAI) by the Reserve Bank of India (RBI) to carry out credit ratings in India. BWR is promoted by Canara Bank, India's leading public sector bank. More information on Canara Bank is available for reference at www.canarabank.com

BWR Rating Criteria are available at <https://www.brickworkratings.com/ratingscriteria.aspx>

Brickwork Ratings, a SEBI-registered credit rating agency, has also been accredited by the RBI, and it offers rating services for bank loan, NCD, commercial paper, bonds, securitised paper etc. BWR has Canara Bank, a nationalised bank, as its promoter and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence, with offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi, along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitised paper of over ₹ 10,00,000 Cr. Additionally, fixed deposits and commercial papers, among others, worth over ₹24,440 Cr have been rated.

DISCLAIMER

Copyright © 2021 by Brickwork Ratings India Pvt Ltd., 3rd Floor, Raj Alkaa Park, 29/3 & 32/2, Bannerghatta Main Rd, Kalena Agrahara, Bengaluru, Karnataka 560076. Telephone: +91 80 4040 9940. Fax: +91 80 4040 9941. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings, Brickwork Ratings relies on factual information it receives from issuers and underwriters and from other sources Brickwork Ratings believes to be credible. Brickwork Ratings conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Brickwork Ratings' factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Brickwork Ratings' ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Brickwork Ratings relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Brickwork Ratings and to the market in offering documents and other reports. In issuing its ratings Brickwork Ratings must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed. THE INFORMATION IN THIS REPORT IS PROVIDED "AS IS" WITHOUT ANY REPRESENTATION OR WARRANTY OF ANY KIND. A Brickwork Ratings rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Brickwork Ratings is continuously evaluating and updating. Therefore, ratings are the collective work product of Brickwork Ratings and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Brickwork Ratings is not engaged in the offer or sale of any security. All Brickwork Ratings reports have shared authorship. Individuals identified in a Brickwork Ratings report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Brickwork Ratings rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time, for any reason in the sole discretion of Brickwork Ratings. Brickwork Ratings does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Neither Brickwork Ratings nor its affiliates, third party providers, as well as their directors, officers, shareholders, employees or agents (collectively, "BWR Reps") guarantee the accuracy, completeness or adequacy of the Report, and no BWR Reps shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of this publication. In no event shall any BWR Reps be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Report even if advised of the possibility of such damages. Brickwork Ratings receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities.