

# Economics

## India external sector: Emerging risks

**Key takeaways:** India's external sector remained steady amidst emerging global risks as it closed FY24 with a relatively flat overall export growth (goods plus services) and a 5% YoY decline in imports amid gains of moderation in commodity prices. USDINR weakened by 0.42% YoY in FY24 as RBI continued to focus on stability and building of fx reserves. Amid record high FX reserves, and relative growth comfort vs EM peers, despite emerging global risks, we continue to anticipate a stable external sector outlook but see risks emerging from sharp appreciation of DXY and firming commodity prices. We retain our current account deficit (CAD) estimate at 1.2% of GDP for FY25E with risks on the upside. Key risks to our call emerge from rising crude oil and overall commodity prices and geopolitical tensions disrupting key trade routes and with key trading partners in which case, we see 30-40bps upside in CAD as % of GDP in FY25E.

### Trade deficit moderates led by sharp fall in non-oil non gold imports

India's merchandise trade deficit narrowed almost 16.7% MoM in March as imports fell more steeply than exports sequentially. YoY, merchandise exports dipped marginally by 0.6% YoY to USD 41.68bn in Mar-24, recording the highest monthly merchandise exports in the current fiscal year and imports declined to USD 57.28bn, down 5.9% YoY in March-24 versus a 12.2% YoY rise in February-24. Core imports too declined by 3.5% YoY in March-24 against a growth of 5.2% in February-24.

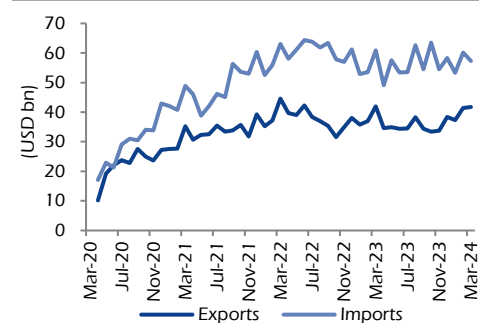
Overall, in the financial year, merchandise exports stood at USD 437bn, contracting ~3.0% YoY following two years of growth. Merchandise imports in FY24 stood at USD 677bn and declined by 5% YoY, helping narrow the merchandise trade deficit to USD 240.17bn from USD 264.9bn in FY23. In FY24, India's service export continued to grow, up 4.5% YoY underpinned by rising non-IT exports, while imports declined at 3% YoY.

### Retain FY25E CAD at 1.2% with risks on the upside

Rising crude oil prices and resurgence in commodities and soaring geopolitical tensions are increasing risks to India's external sector. Even as non-IT sector exports remain strong and global growth helps to limit the downside to merchandise exports, we remain watchful of the emerging risks.

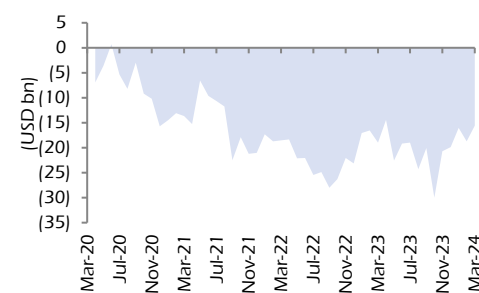
On the domestic front, robust capital flows, record high forex reserves and optimism regarding relatively robust growth vs EM peers continue to keep FII inflows steady into India's market. Moreover, strong intent on the part of the RBI to manage volatility (underpinned by record forex reserves) and implicitly preventing runaway depreciation resulting from upside in the US are likely to cap downside for the USD-INR.

### Exports continue to rise and imports moderated in March-24



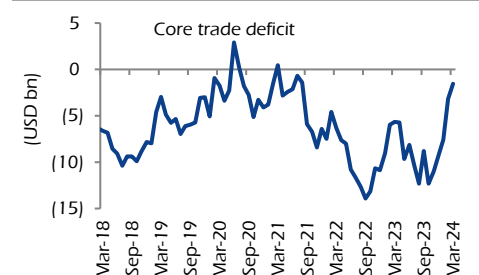
Source: CEIC, Elara Securities Research

### Trade deficit narrows in March-24



Source: CEIC, Elara Securities Research

### Core trade deficit narrowed sharply in March 2024



Source: CEIC, Elara Securities Research

The recent geopolitical events are likely to keep crude prices elevated near USD 90/bbl with possibility of rising towards USD 95/bbl intermittently. Also, recent strong data points from US has firmed up USD and UST yields thereby adding pressure on the USD/INR. We see recent depreciation pressures on INR and the factors driving it as transitory, largely impacted by adverse geopolitical developments driven risk-off sentiment and US markets adjusting to new normal of sticky inflation. The macro-economic fundamentals remain sound for INR and strong fx reserves gives RBI immense firepower to arrest INR's two-way volatility – hence we see it averaging 82.5 for the year with potential appreciation in 2HFY25.

Taking these factors into account, we retain our FY25E CAD estimates at 1.2% of GDP with risks on the upside. If crude prices sustain at or beyond USD 90/bbl, USD firmness continues, and geopolitical tensions continue to remain elevated, we expect 30-40bps upside in our CAD estimates for FY25E.

### **March merchandise export – Highest monthly print in FY24**

Overall merchandise exports picked pace in the end of third quarter of FY24, up 8.4% between December-23 and March-24. In March, within agriculture items, spices (51.06% YoY) and coffee (40.3% YoY) displayed strong

momentum. Notable sectors such as Electronics Goods saw ~23.17% YoY rise in exports and organic chemicals exports picked pace modestly for the second month, at ~40% YoY (+28.85% MoM). Engineering goods saw a ~10.70% YoY rise in exports. That said, iron ore exports saw the first contraction in 10 months, down ~27% YoY in March-24.

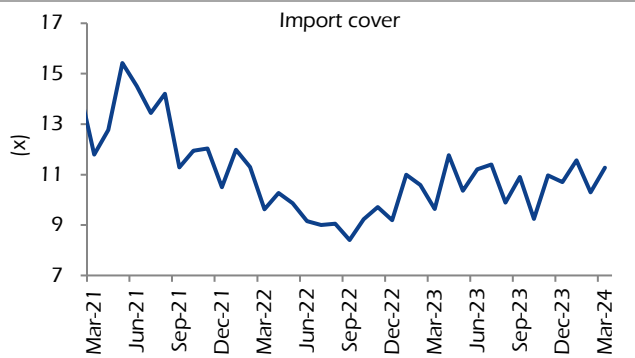
Main drivers of merchandise export growth in FY24 were iron ore (117.7%), electronic goods (23.64%), tobacco (19.46%), ceramic products & glassware (14.44%) and fruits and vegetables (13.86%).

### **Merchandise import growth moderated sequentially**

Overall imports declined ~5.9% YoY in March-24 versus a ~12.4% YoY growth in February-24. Sequentially too, imports declined 4.7% in March-24 due to softer demand for non-petroleum products. Among merchandise imports, oil and petroleum product imports fell by ~4.4% YoY, in line with higher crude oil prices in the prior month.

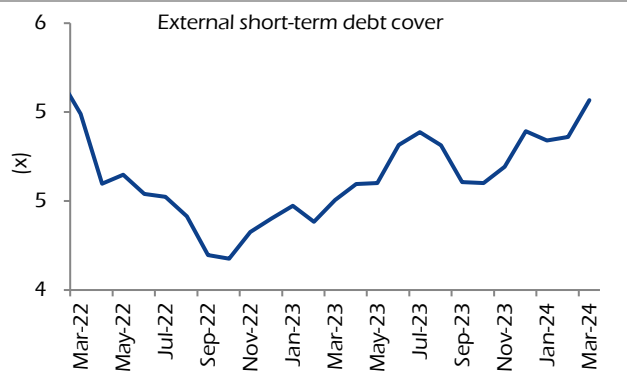
Demand for gold declined subsequently in March after rising unexpectedly last month and due to a price surge. Imports of gold declined by 53.5% and that of silver rose +1058% YoY due to a low base. Meanwhile imports of pulses surged 210% YoY and that of sulphur and unroasted iron pyrites 121% YoY in March-24.

**Exhibit 1: Import cover comfortable ...**



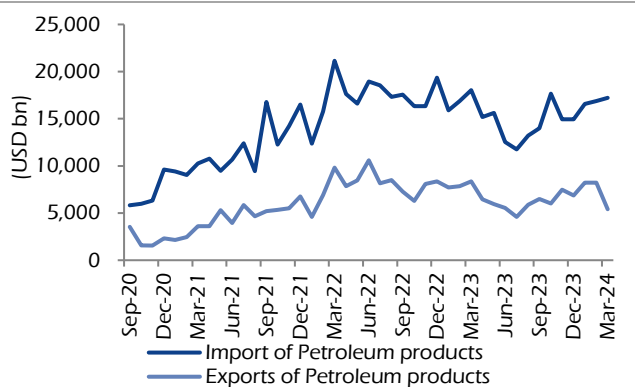
Source: CEIC, Elara Securities Research

**Exhibit 2: ...and so is external short-term debt cover**



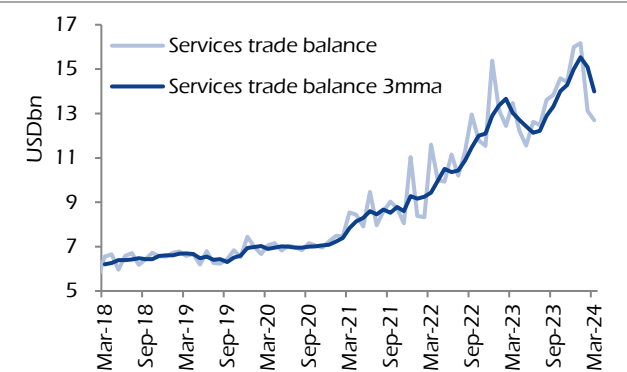
Source: CEIC, Elara Securities Research

**Exhibit 3: Petroleum products – Exports declined sharply versus imports**



Source: CEIC, Elara Securities Research

**Exhibit 4: Services trade balance dipped in March 2024**



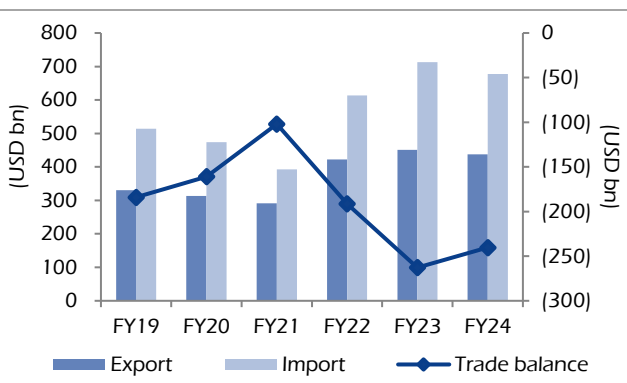
Source: CEIC, Elara Securities Research

**Exhibit 5: Top five-exports and imports in FY24**

Exports (% YoY)	FY-24
Iron ore	117.74
Electronic goods	23.64
Tobacco	19.46
Ceramic products& glassware	14.44
Fruits & vegetables	13.68
Imports (% YoY)	FY24
Pulses	92.81
Dyeing/tanning/colouring materials	27.48
Gold	30.0
Gold & silver	26.48
Electronic goods	16.07

Source: CMIE, Elara Securities Research

**Exhibit 6: Overall export and import growth tapered in FY24**



Source: CMIE, Elara Securities Research

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