ENTER

India Economic Pulse

Economic indicators and policy measures

September 2022

Building a better working world

Contents

1

Executive summary

Dear Reader,

We are pleased to present the September 2022 edition of India Economic Pulse, analyzing high frequency economic indicators. The issue highlights the following key aspects:

Weathering the geopolitical storms

Global economy is affected by many shocks, such as the Ukraine conflict and inflationary pressures, resulting in rising interest rates. The Indian economy is in a better shape relative to others – the growth projections for 2022 are the highest across major economies– and has also managed to contain the impact on inflation, interest rates and currency depreciation. This has resulted in the highest inflows of equity portfolio investments in August 2022 since December 2020, after several months of withdrawal of investments.

The global prices for some metals and food commodities have moderated while energy prices –reflected in crude oil and coal markets – have paused on growth but continue to remain elevated. These trends have reduced the inflationary pressure on India. For example, the wholesale price inflation moderated marginally from 15% to 14% in July 2022 and may further fall if global commodity markets continue to cool down. Power spot market prices in India have also reduced from an average of Rs 10 per kWh in April to about Rs. 5 per kWh in August 2022. These trends may eventually start cooling down consumer prices as well.

On the other hand, the slowing global economy will have a negative impact on India's exports, which have been growing rapidly since 2021. The growth in the non-oil goods exports has moderated and underscores the need for domestic sources of growth for the Indian economy and the importance of trade agreements with the key consuming economies.

Domestic growth engines restarting

While the latest GDP data for Q1 of 2022 to 2023 shows a modest growth of 3.3% vis-à-vis Q1 of 2019 to 2020, the Indian economy is shaping up to grow at faster rates in coming quarters. One sector where the country continues to well below 2019 to 2020-levels (-15.4%) is trade, hotels, transport and communication, which has had an impact that is greater than 2%.

1. *Various indicators suggest that consumer demand in India is reviving:*

- The share of private consumption in total GDP has increased from 54% in Q1 2021 to 2022 to 59% in Q1 of 2022 to 2023.
- GST collections, whose base is largely final consumption in the economy, have been growing at 33% in the current fiscal year, which even after adjusting for high inflation shows relatively high real growth.
- Investments in passenger vehicles and housing have been picking up, ably supported by a pickup in growth bank credit for housing, auto, credit card and other personal loans – on track to achieve highest growth since at least 2017 to 2018. This underscores consumer confidence in the future of the Indian economy.
- Freight transportation, production of commodities i.e., cement and steel all are showing robust growth.
- However, the consumption recovery continues to remain relatively uneven – for example, the demand for two-wheelers and three-wheelers has remained muted – indicating that the rural economy demand is yet to pick up.

2. *At the same time, there are signs of pickup of investments and capital formation in the economy as well.* Overall bank credit and credit to industry and services has started growing – both in nominal and real terms. Manufacturing of capital goods and equipment for the infrastructure sector has also seen growth. Finally, the capital formation rate in the economy has improved in Q1 2022 to 2023 to over 34%, which if maintained for the entire fiscal year would be the highest investment rate since 2012 to 2013.

3. *Public finances are healthy and robust* – personal income tax and corporate tax collections have grown at 50% and 34% respectively during April to July 2022 over last year. This has helped the government to contain fiscal deficit till date in the current fiscal year and the government has retained the ability to ramp up revenue expenditures in the remaining 8 months of the fiscal year that would also boost demand.

On the policy front, India's monetary policy has been effective in managing the twin challenges of inflation and pressure on rupee, while containing the impact on growth. Equally important is the fact that the non-performing loans in the banking sector have declined sharply to 5.9% of total advances in 2021-2022 from 9.1% in 2018 to 2019, thereby avoiding any adverse impact from COVID-19. This will allow the banking sector to support a new cycle of capex in the Indian economy.

Decarbonization continues to be an important agenda of the government's policy thrust with many policy initiatives. Going forward, there may be related challenges around sourcing of critical minerals, which is discussed.

Two areas where we are likely to witness significant policy announcements would be on technology-related legislations and the next level of GST reforms.

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2

Global economic outlook

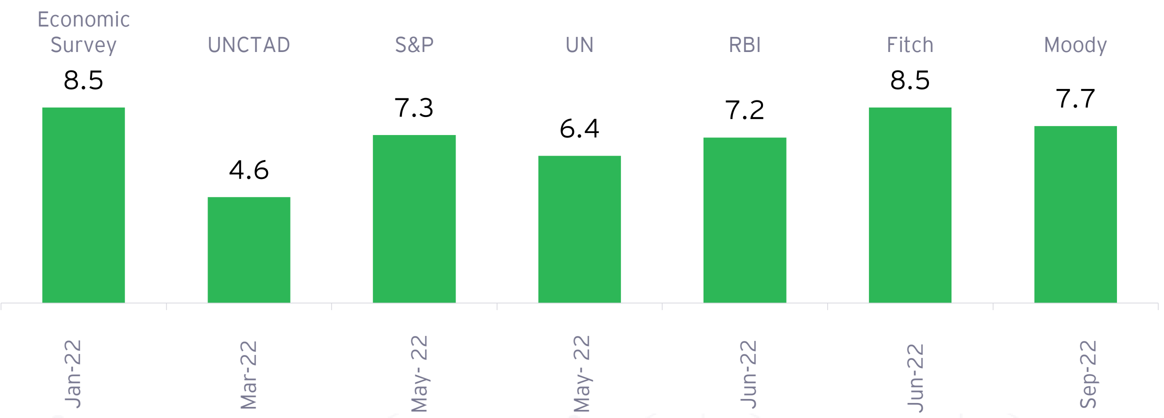
World economic growth outlook continues to be uncertain
Economies still reeling from the pandemic and Russia invasion of Ukraine

World Economic Outlook Projections (%), July 2022

		Projections	
Region / Countries	2021	2022	2023
World	6.1	3.2	2.9
US	5.7	2.3	1.0
Euro Area	5.4	2.6	1.2
Japan	1.7	1.7	1.7
United Kingdom	7.4	3.2	0.5
Canada	4.5	3.4	1.8
Emerging Markets /Developing Economies	6.8	3.6	3.9
ASEAN-5	3.4	5.3	5.1
China	8.1	3.3	4.6
India	**8.7***	**7.4**	**6.1**
Brazil	4.6	1.7	1.1
Russia	4.7	-6.0	-3.5

**Actual growth in 2021 is lower than the IMF's estimate of India's growth*

India's GDP forecast for 2022 (%)

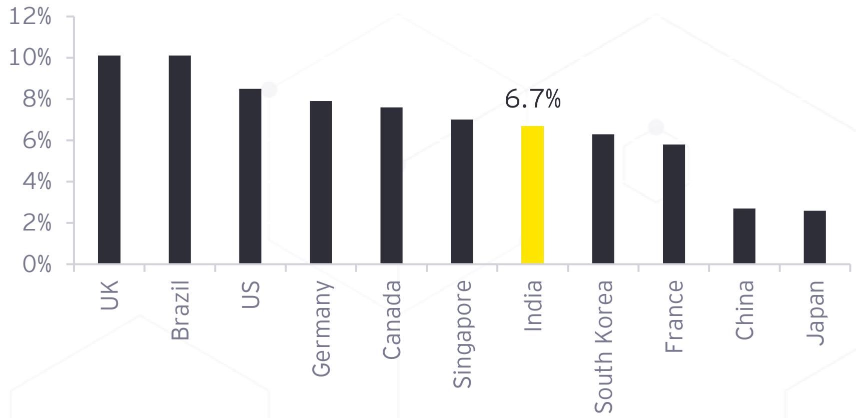


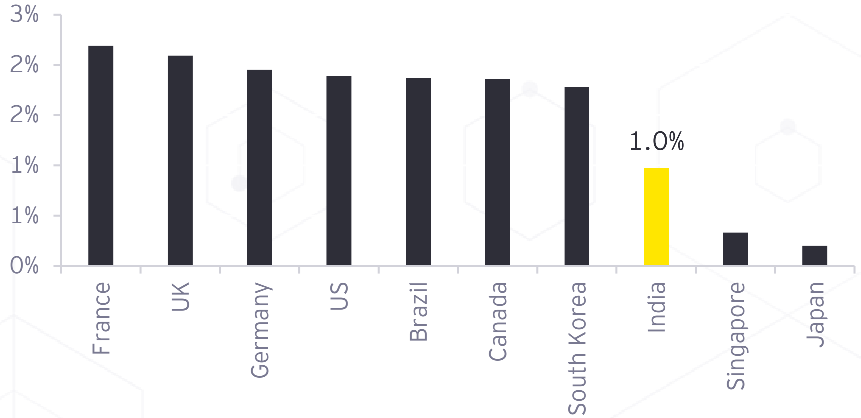
The outlook for India has been revised down by 0.8 percentage point, to 7.4 percent. For India, the revision reflects mainly less favorable external conditions and more monetary policy tightening.

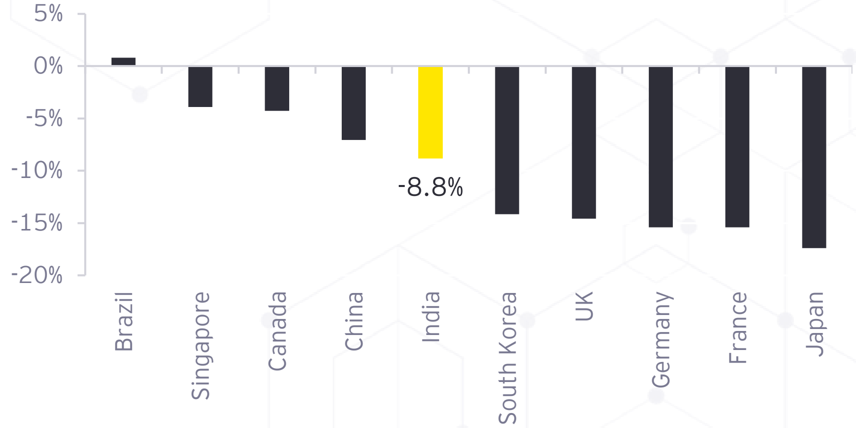
- IMF has revised the world growth projections from 6.1% in 2021 to 3.2% in 2022 and 2.9% for the next year. The new projections reflect a decrease of 0.4 and 0.7 percentage points from IMF's April estimates. The slowdown reflects stalling growth in the world's three largest economies–the United States, China and the euro area.
- Higher-than-expected inflation, especially in the United States and major European economies, is triggering a tightening of global financial conditions. China's economic slowdown has been worse than anticipated amid COVID-19 outbreaks and lockdowns, and there have been further negative spillovers from the war in Ukraine.

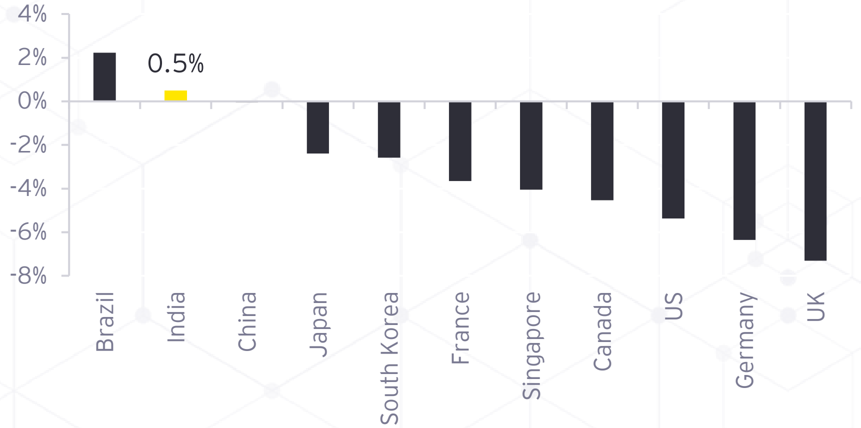
Source: IMF Economic Outlook July 2022, UNCTAD, Various agencies

Indian economy in a better position relative to other global economies on macroeconomic indicators









Key findings

- Global factors such as conflict between Russia-Ukraine, rising inflation and increase in interest rates by US Fed have caused capital flow to move back to US from rest of the world, causing USD to appreciate vis-à-vis other currencies, hike in interest rates, and increasing inflation.
- Interest rates have increased in many advanced economies with worries about impact on growth. However real interest rates continue to be negative.
- The Indian economy has done better than others at a relative level. The increase in interest rates in India has been lower, while the Rupee has outperformed other global currencies. Further, even consumer inflation in India is much lower than many other economies – including many developed like US, UK, Germany etc.

Source: FT, Bloomberg, Google finance

- *Real yields have been computed by reducing inflation from the nominal yields*

Inflation as percentage annual change as of July 2022; Germany and France as of August 2022

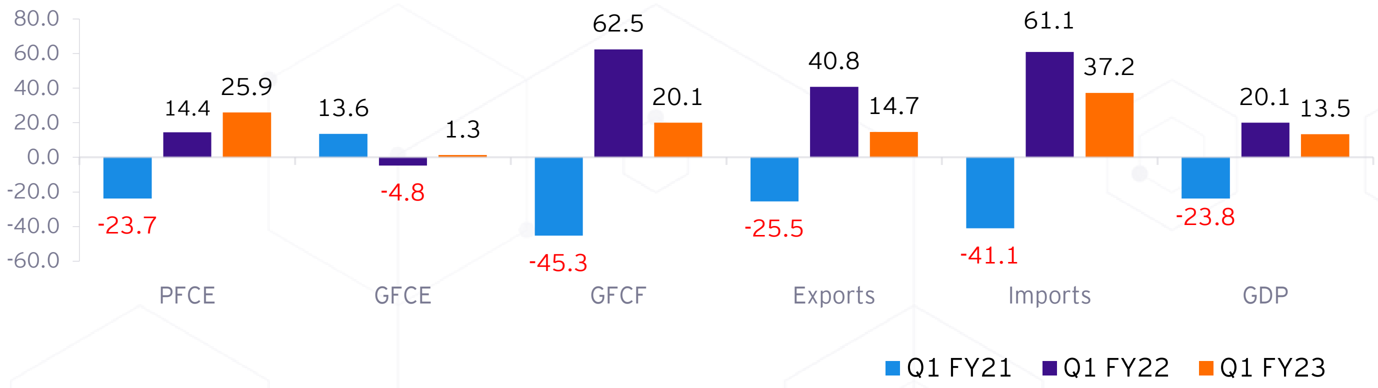
Data on yields and currency performance as at end August 2022

3

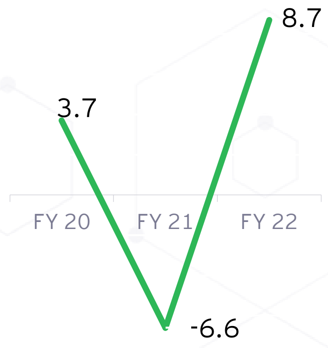
Key economic and fiscal indicators

Indian economy resilient but vulnerable to crude price impact

Quarterly Estimates of Expenditure on GDP growth (%)

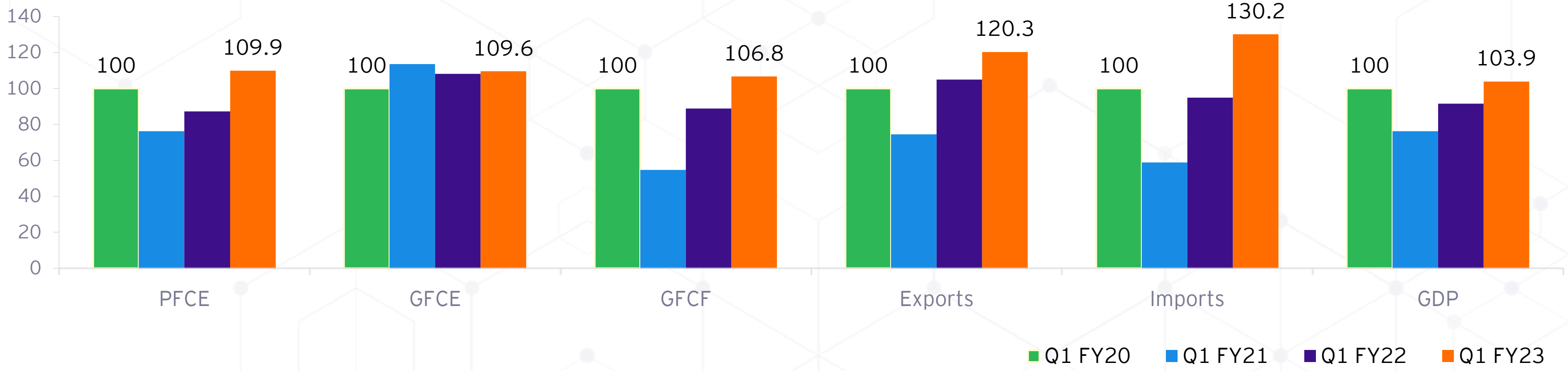


Annual GDP growth (%)



PFCE: Private Final Consumption Expenditure; GFCE: Government Final Consumption Expenditure; GFCF: Gross Fixed Capital Formation;

Quarterly Estimates of Expenditure against the base of the same quarter in 2020



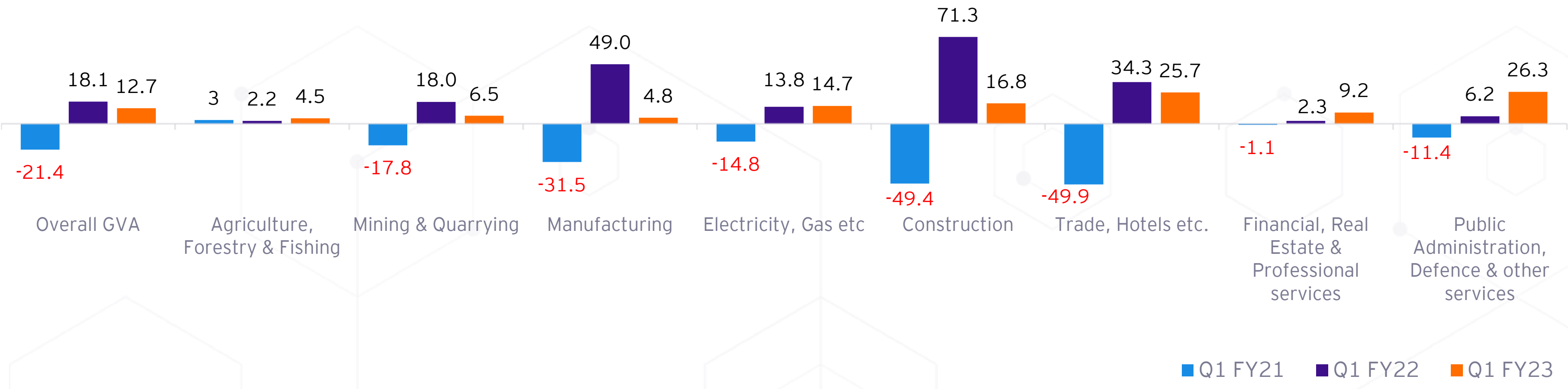
Source: Budget 2021-22, 2020-21, Controller General of Accounts,

Key findings

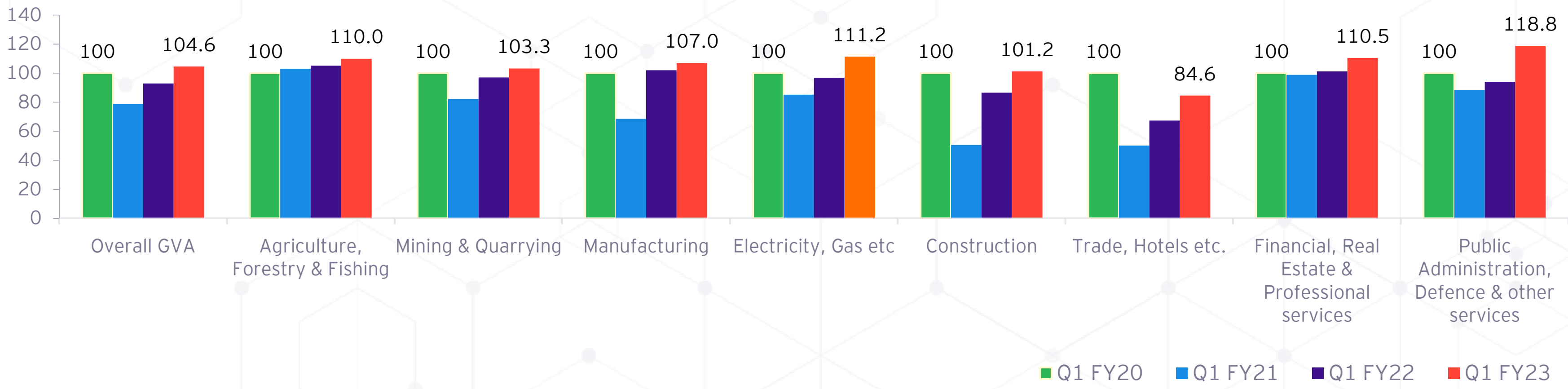
- National Statistical Office's (NSO's) real GDP growth estimate of 13.5% for the first quarter of FY23 is 2.7% points, lower than the RBI's earlier assessment of 16.2%.
- On the demand side, all major segments show magnitudes in 1QFY23 that are higher than their corresponding levels in 1QFY20.
  - Recovery in domestic demand is reflected in the growth rates of private final consumption expenditure (PFCE) and gross fixed capital formation (GFCF) over the corresponding quarter of the previous year.
  - The contribution of net exports to real GDP growth is negative at (-) 6.2% points in 1QFY23 since import growth continues to exceed export growth by a tangible margin.

Performance of the major sectors of the economy

Quarterly gross value added (GVA) growth (%): major sectors



Quarterly gross value added (GVA) by major sectors against the base in 2020



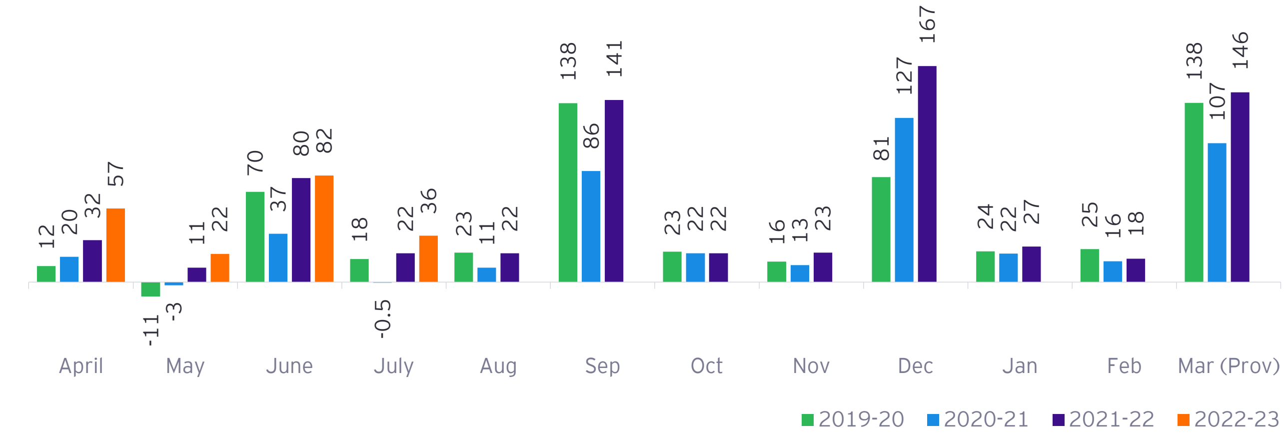
Source: Budget 2021-22, 2020-21, Controller General of Accounts

Key findings

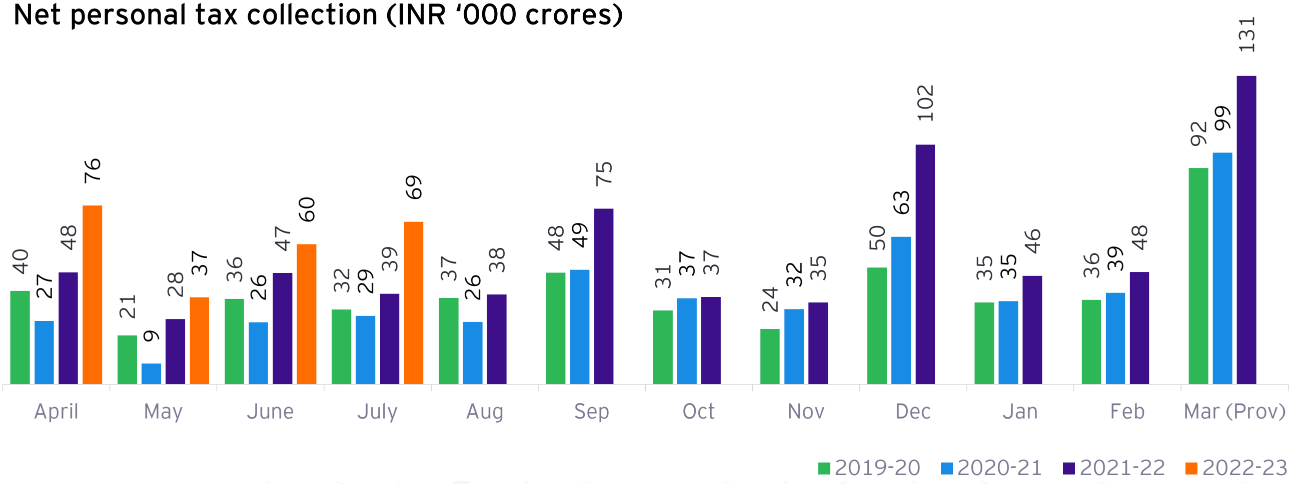
- Overall, 1QFY23 gross value added (GVA) growth has been led by public administration, defense, and other services with a growth of 26.3%. This is driven by the government's front-loading of capex and continuing recovery in the informal sector, reflected in the 'other services' category.
- Sectoral GVA growth indicates that only trade, hotels, transport et al. sectors are below its FY20 level. This is despite the high growth in Q1FY23 over Q1FY22.
- Construction after being severely impacted by the onset of COVID has recovered to just over pre-COVID-19 levels. This trend is also reflected by an uptick in demand for housing loans.

Trends in center's direct tax collections

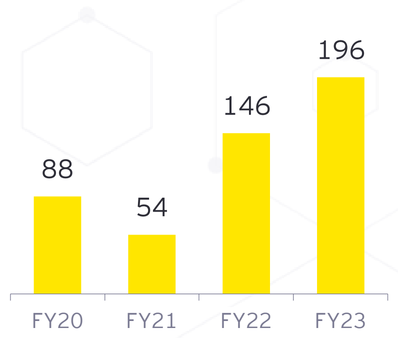
Net corporate tax collection (INR '000 crores)



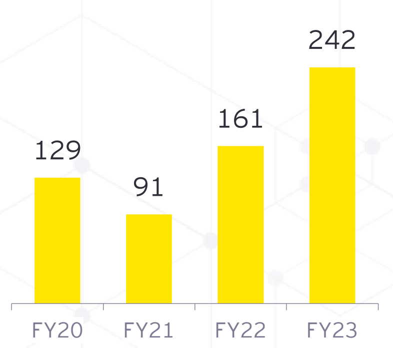
Net personal tax collection (INR '000 crores)



Corporation tax
(INR '000 crores)
(Apr – Jul)



Personal tax
(INR '000 crores)
(Apr-Jul)



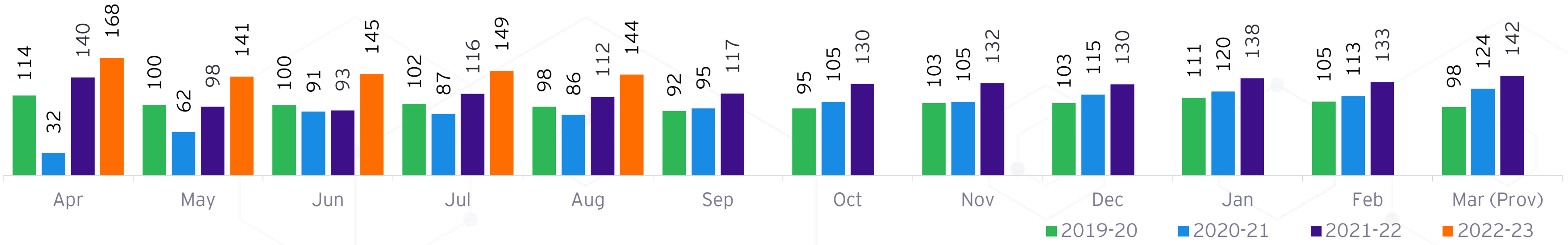
Key findings

- Direct tax collection continues to be robust for the period April-July, FY23.
- The combined corporate tax (CIT) and personal income tax (PIT) revenues witnessed a 43% increase during April-July FY23 vis-à-vis the same period in FY22
- During the same period, PIT collections reflected a 50% jump and CIT collections increased by 34% .
- The hefty rise in direct tax collections may be partially attributed to higher incomes resulting from economic activity pickup. It was also facilitated by the higher nominal GDP growth at 26.7% in 1QFY23 over the real GDP growth of 13.5%
- Tightened enforcement by the Income tax Department, the use of technology-enabled data intelligence and tools, such as Annual Information Statement, have also helped improved compliance.

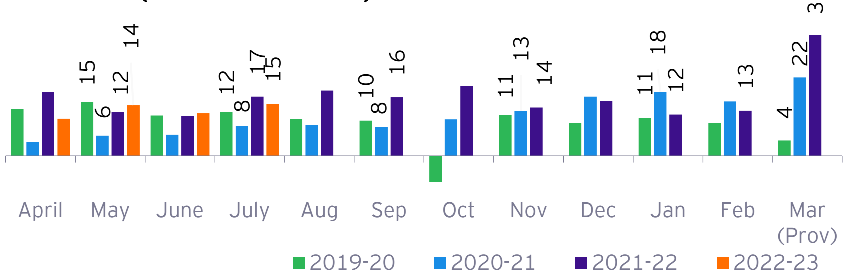
Source: Controller General of Accounts,

Trends in center's indirect tax collections

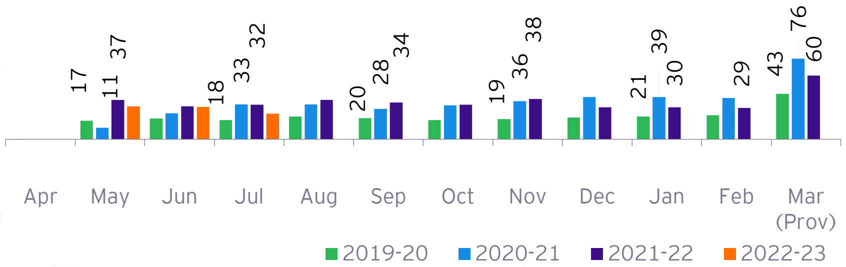
GST Collections (Centre + States) (INR '000 crores)



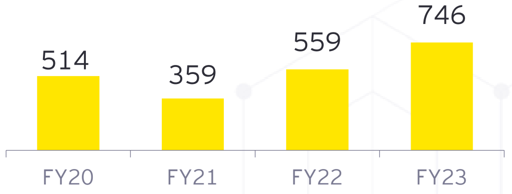
Customs (INR '000 crores)



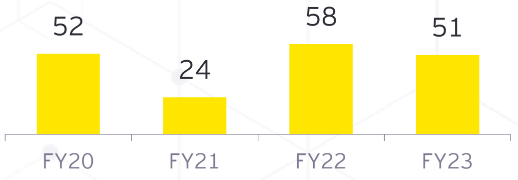
Union excise duty (INR '000 crores)



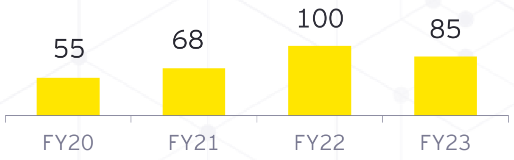
GST (Centre +States) (INR '000 crores) (Apr-Aug)



Customs duty (INR '000 crores) (Apr-Jul)



Union Excise Duty (INR '000 crores) (Apr-Jul)



Key findings

- GST collections remained above INR1.4 trillion for the fifth month in a row.
  - For April-August FY22, GST revenue has grown 33% vis-à-vis the same period last year, displaying high buoyancy
  - The increased collections are mainly on account of improved economic activities, enhanced compliance measures by the tax authorities and inflation.
- For the period April-July FY22, customs duty collections declined by ~12%. This could be due to the decline in April collections when import duty was cut for certain agri-products like palm oil and cotton.
- Excise duty mop up fell by 15% during April-July of FY23 due to a cut in excise duty on petrol and diesel in May 2022.

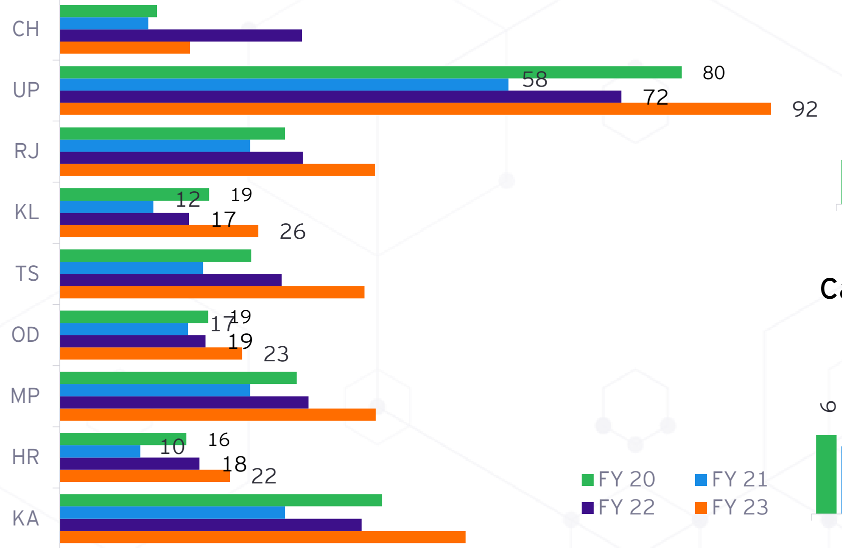
Source: Controller General of Accounts; GST Council/ PIB

States' tax revenues show robust recovery

Public finance

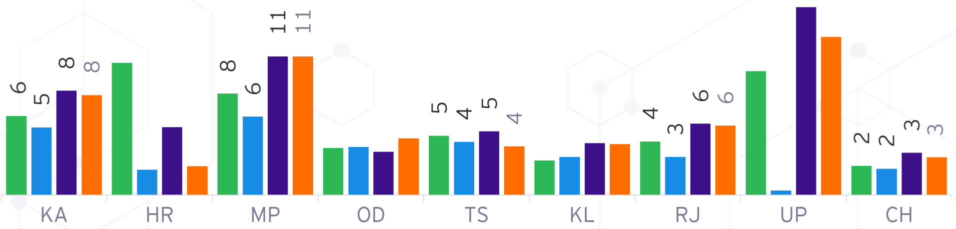
Tax revenue and expenditure for major states for the period (April'22 – July'22)

Tax revenue (INR '000 crores)

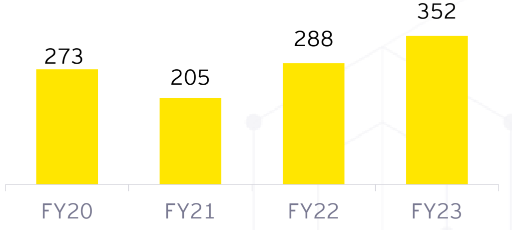


Revenue expenditure (INR '000 crores)

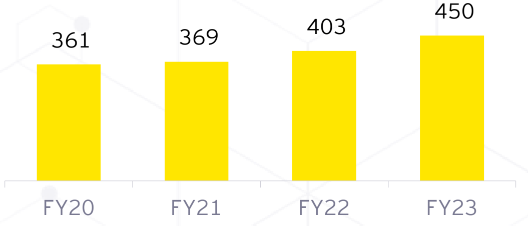
Capital expenditure (INR '000 crores)



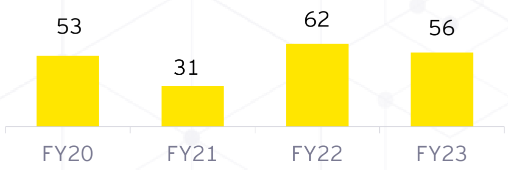
Tax Revenue
(INR '000 crores)



Revenue Expenditure
(INR '000 crores)



Capital Expenditure
(INR '000 crores)



Key findings

- Overall, in the nine selected states for which the latest data is available, tax revenues for the period April–July increased by 22% in FY23 vis-à-vis same period FY22.
- During April-July FY23, revenue expenditure by the States saw a 12% rise vis-à-vis the same period last year while capital expenditure declined by 10%.
  - Odisha was the exception where capex has seen a rise instead of a decline.
- At the individual state level, Kerala witnessed the highest increase in tax revenues in FY23. However, both revenue and capital expenditure declined.

CH: Chhattisgarh; : HR: Haryana; KA: Karnataka; KL: Kerala; MP: Madhya Pradesh; OR: Odisha; RJ: Rajasthan; TN: Tamil Nadu; TS: Telangana; UP: Uttar Pradesh;
Source: Controller and Auditor General; State Accounts

EY

Fiscal data shows improved revenues

#	Particulars	Budget estimate (BE) (2022-23) (INR crores)	Actuals (April - Jul 2022) (INR crores)	Actuals (April - Jul 2021) (INR crores)	Actuals as % of BE FY 23	Actuals as % of BE FY 22	Average Actuals as % of BE (FY18 - FY22)
1	Tax revenues (Net of States' share)	19,34,771	6,66,212	5,29,189	34.4%	34.2%	21.6%
2	Non tax revenues	2,69,651	89,583	1,39,960	33.2%	57.6%	21.4%
3	Revenue receipts (1+2)	22,04,422	7,55,795	6,69,149	34.3%	37.4%	21.4%
4	Other receipts	79,291	30,119	14,148	38.0%	7.5%	10.8%
5	**Total non-debt receipts (3+4)**	**22,83,713**	**7,85,914**	**6,83,297**	**34.4%**	**34.6%**	**20.5%**
6	Revenue expenditure other than interest	22,54,606	6,34,205	6,50,195	28.1%	30.7%	37.3%
7	Interest	9,40,651	2,83,870	2,25,817	30.2%	27.9%	29.2%
8	Capital expenditure	7,49,652	2,08,670	1,28,428	27.8%	23.2%	30.0%
9	**Total expenditure (6+7+8)**	**39,44,909**	**11,26,745**	**10,04,440**	**28.6%**	**28.8%**	**34.3%**
10	Fiscal Deficit (9-5)	16,61,196	3,40,831	3,21,143	20.5%	21.3%	76.2%

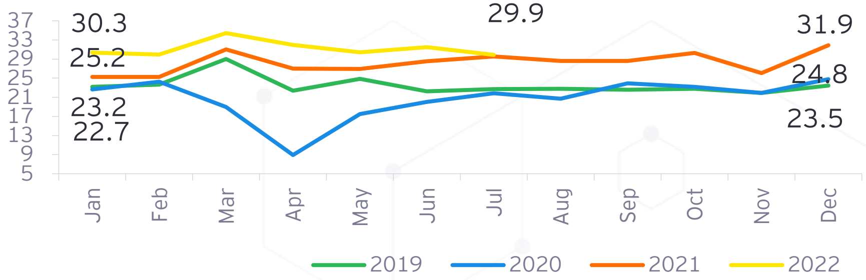
Source: Budget 2022-23, 2021-22, Controller General of Accounts,

Key findings

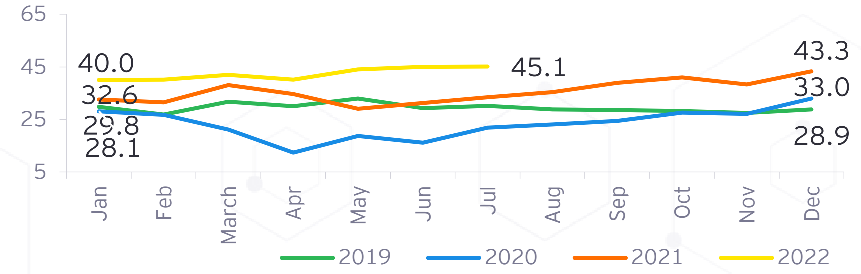
- Center's net tax revenue as a percentage of BE is about the same level in FY23 as in FY22, for the period April-July.
  - However, it may be noted that in absolute terms, the BE for net tax collections in FY23 was enhanced by about INR 3.9 crore from FY22. Thus, the net tax revenues have increased by INR 1.37 crore in FY 23 vis-à-vis FY22 for the period April-July.
- The slight decline in revenue expenditure is reflected in the low estimates of GFCE in 1QFY23. The capex has increased.
- Fiscal deficit touched 20.5% of the annual target in the first four months of FY22.
  - The improvement in fiscal deficit for FY23, as against the five-year average for the same period, is due to better tax collections.

Foreign trade trends

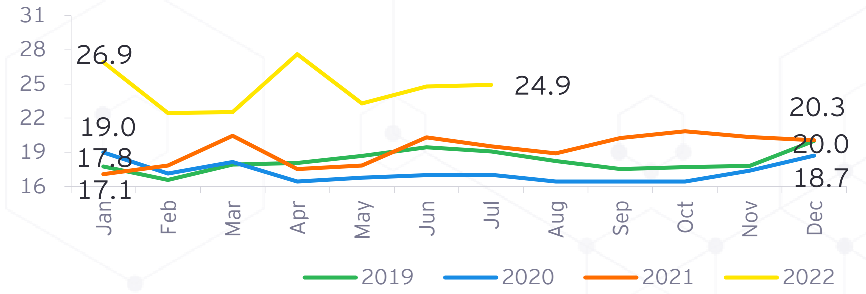
Non- oil merchandise exports (in US$ billion)



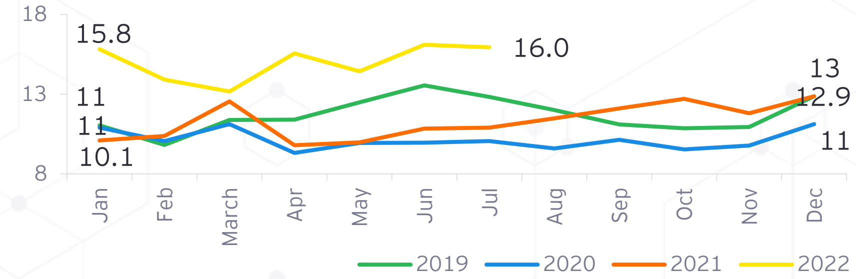
Non- oil merchandise imports (in US$ billion)



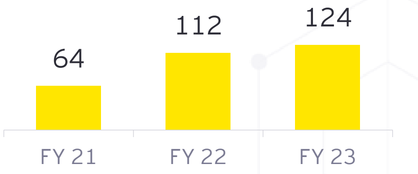
Services exports (in US$ billion)



Services imports (in US$ billion)

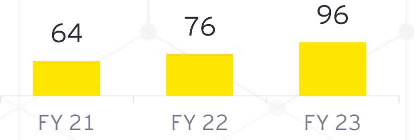


Non-Oil Merchandise Exports (Apr-July) US$ b

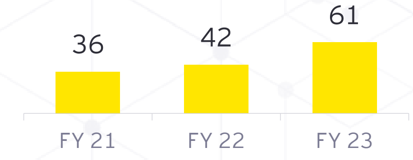


Non-Oil Merchandise Imports (Apr-July) US$ b

Services Exports (Apr-July) US$ b



Services Imports (Apr-July) US$ b



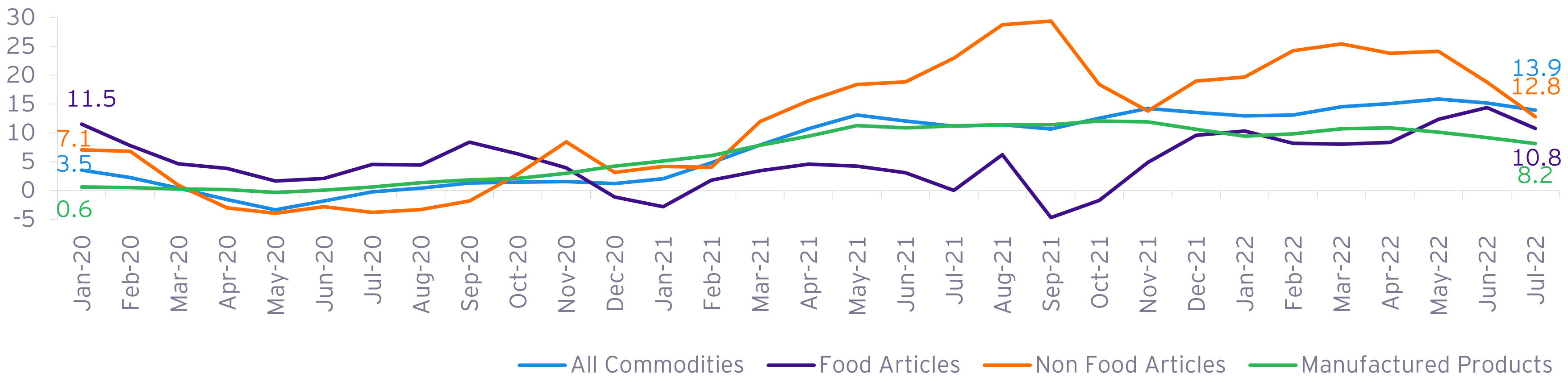
Source: Ministry of Commerce and Industry Press Release

Key findings

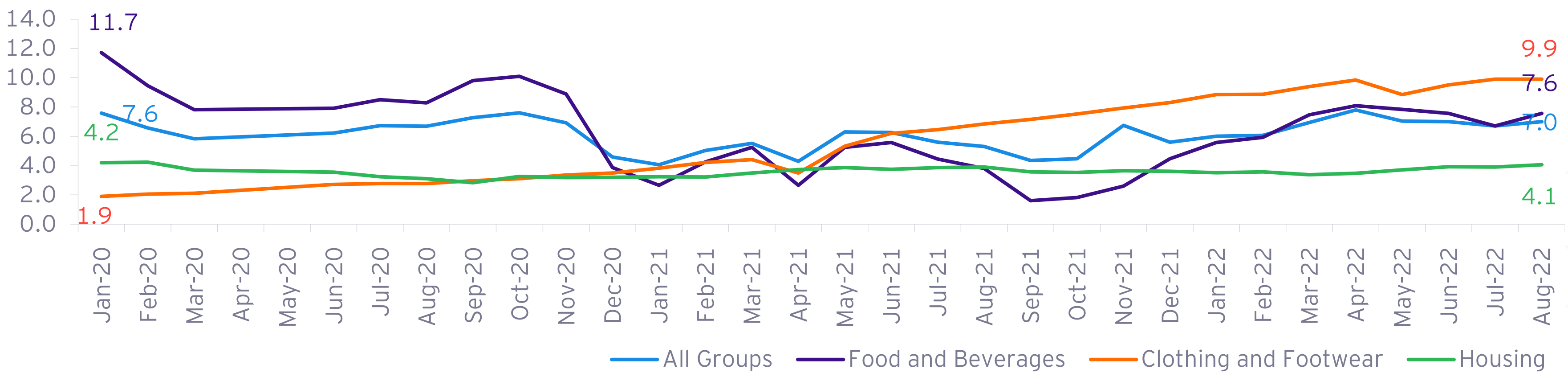
- Non-oil goods exports growth rate has moderated to 11% in the April to July 2022 period due to the slowing global economy. By July, however, the growth has almost become zero.
- Services exports have continued to grow at a robust rate of 26% during April to July 2022, which has provided a cushion to falling goods exports growth.
- On the other hand, non-oil imports of goods have increased by 34% in the April-July 2022 over the previous year. This is driven by a lower base, high commodity prices, and recovering demand in India.
- Similarly, while services imports growth is at 45% in the April-July period, when compared with 2019 (pre-COVID-19 normal period), the growth is lower at 22%, which may be driven by recovery in business services and inflation.

Inflation

WPI inflation (%)



CPI inflation (%)



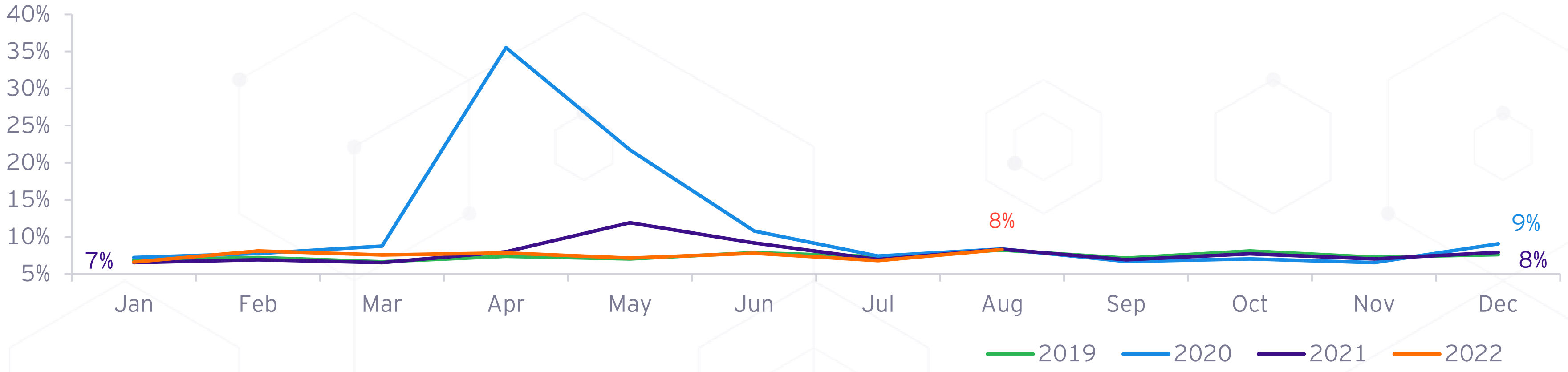
Source: Office of Economic Advisor, Ministry of Commerce and Industry; MoSPI

Key findings

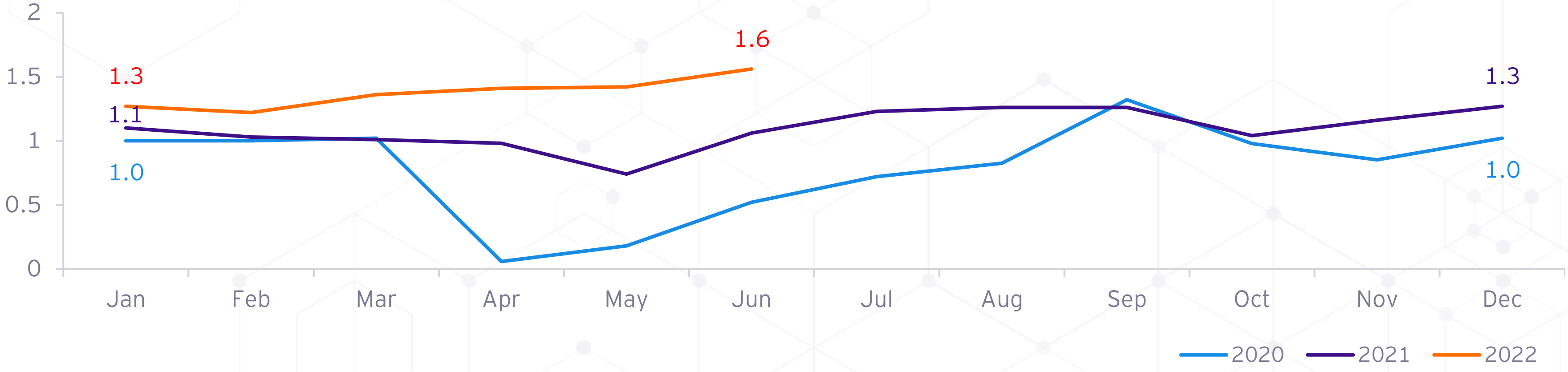
- Inflationary trends have seen a moderation after peaks noted in first half of 2022.
- Wholesale Price Index, representing producer prices, has moderated from 15% in April 2022 to about 14% in July 2022
- Consumer price inflation has also moderated to reached 6.7% in July 2022 from a peak of 7.8% in April 2022. This, however, still remains outside the central bank's tolerance band.
- Rising global commodity (especially crude oil) prices have seen softening in the recent months. However, geo-political uncertainties continue to pose upside risk.
- Inflationary worries would be a key economic and political concern in the coming months

Employment statistics

Indian unemployment Rate (%)



Net new EPF subscribers (in millions)



Source: CMIE, EPFO

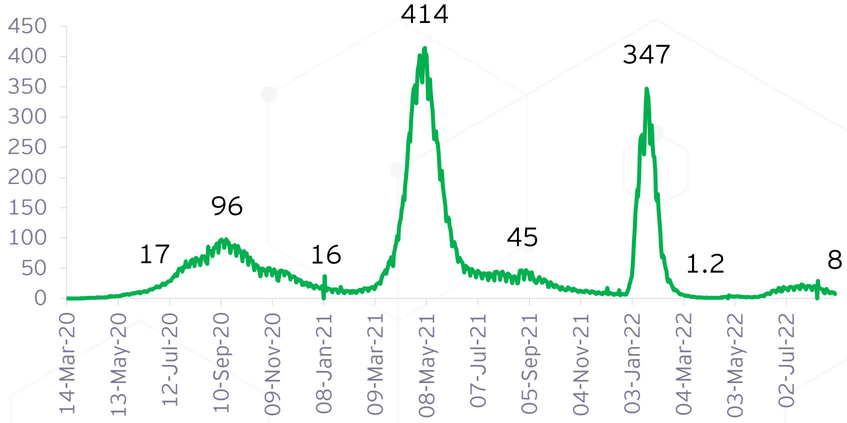
Key findings

- After a temporary spike in 2020-21 post the lockdowns, the unemployment rate in India has normalized to the range of 5% - 10%. In July 2022, the unemployment rate was 7%.
- Increase in net EPF subscribers shows continued formal job creation reaching a high of 1.56 million in June 2022. This represents a growth of 47% over last year.

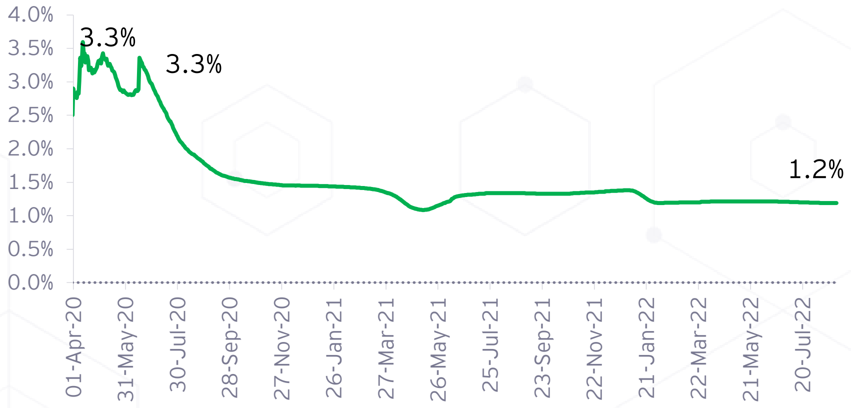
The health and economic impact of COVID-19 infections has diminished considerably

COVID-19 impact

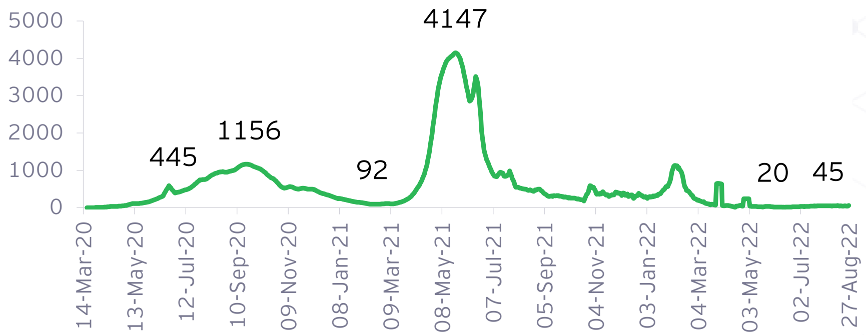
Daily new confirmed COVID-19 cases (in '000s)



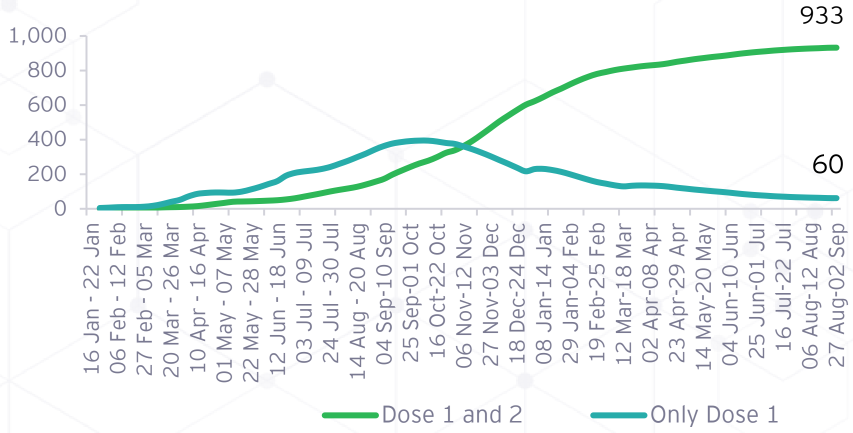
Fatality rate (%)



Daily new confirmed COVID-19 deaths



India's vaccination trends (in million)



Key findings

- While the COVID-19 infection rate in India has seen a cyclical trend, its impact on fatalities has come down significantly as a result of immunity in the population. This is seen by the fact that the rise in COVID-19 cases has not led to any significant changes in the number of deaths.
- Partly this is driven by high vaccination trends in India. Overall, India has provided 2 doses of vaccination to 933 million people to date.
- COVID-19 cases have also had a lesser impact on mobility and economic indicators, as seen in subsequent analysis.

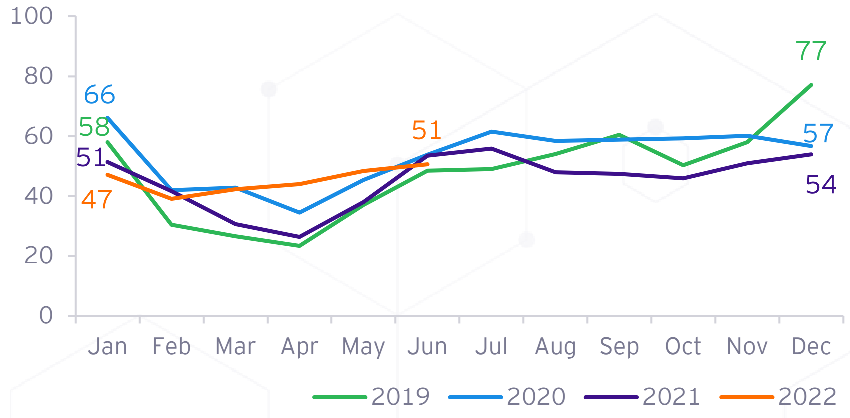
Note: Data as on 31st May 2022;
Source: Our World in Data, COWIN.

4

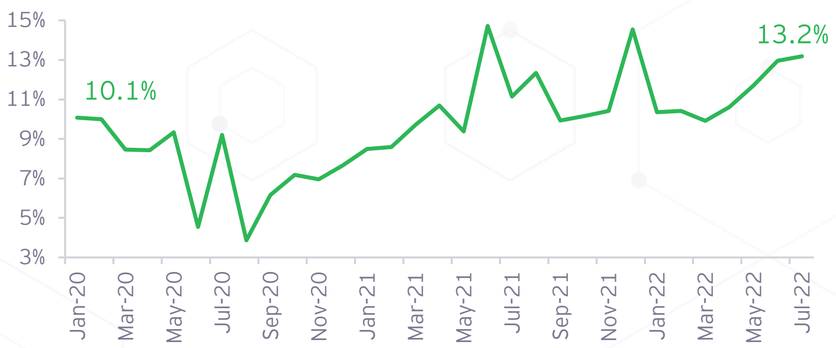
Sectoral indicators

Rural economy indicators

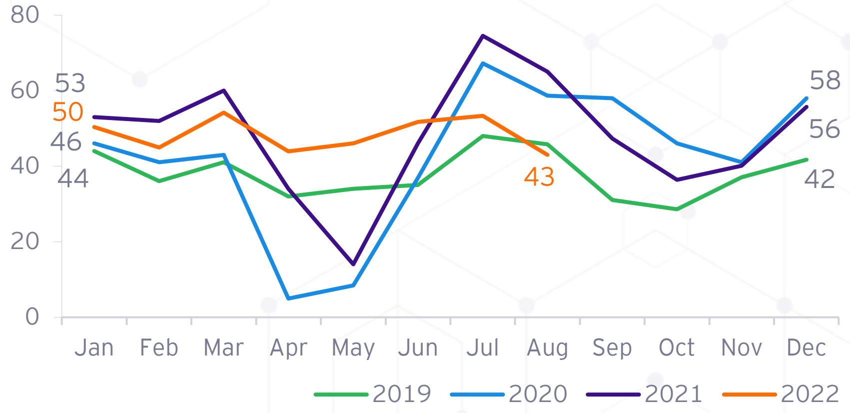
Fertilizer sales (lacs MT)



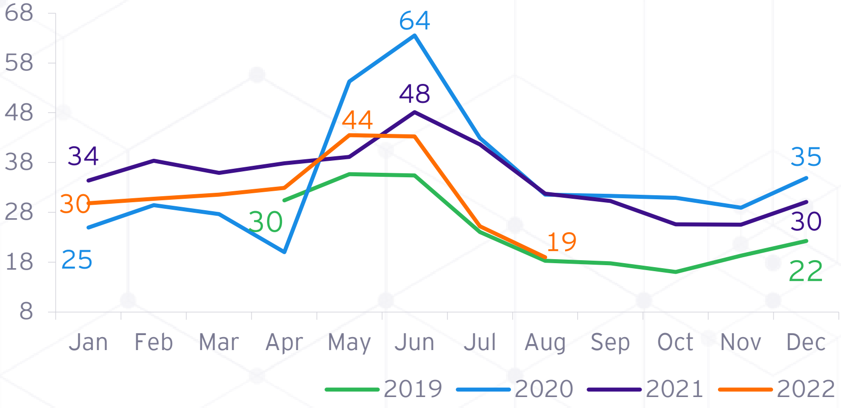
Growth rate of bank credit to agriculture and allied activities



Tractor Registration (no. of units in '000)



Persons work demand under MGNREGA (in millions)



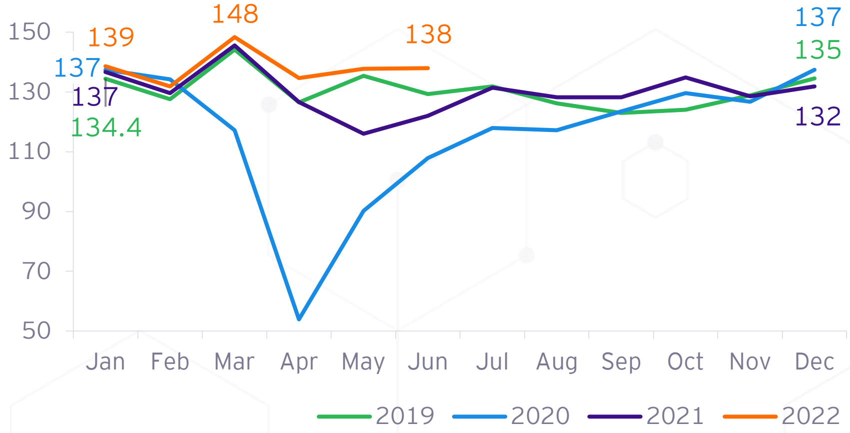
Key findings

- The agriculture sector has seen a robust growth during the COVID crisis and has helped reduce the negative impact of the economic shock to the rural economy.
- Fertilizer and tractor sales trends suggest a moderating agriculture economy. Tractor sales in August recorded a 34% decline over last year while MNREGA demand declined by 40%
- However, credit growth in agriculture has picked pace post a subdued Q1 with 13% growth over year in July.
- Also, the demand for MGNREGA has come down to the pre-COVID-19 levels from July 2022 onwards.

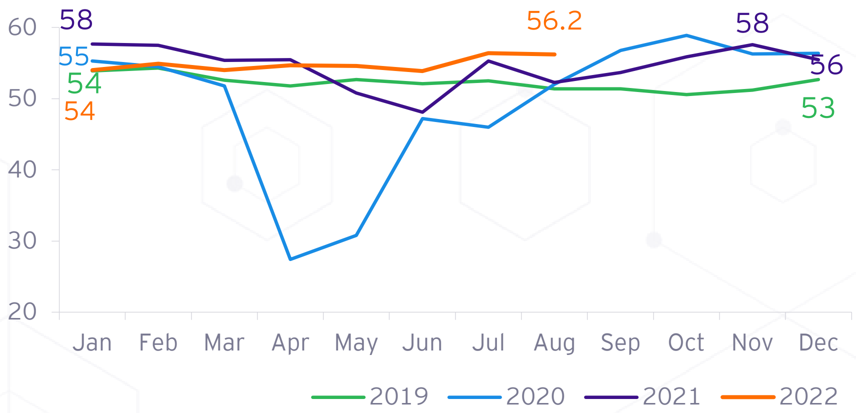
Note: Date as on 31st August 2022;
Source: Ministry of Road Transport and Highways, Ministry of Agriculture & Department of Fertilizers, MNREGA, MOSPI, RBI
Note: Fertilizer sales comprises of Urea, DAP, MOP and Complexes. Growth rate of bank credit to agriculture and allied activities have been computed based on the change over 12 month period

Overall manufacturing indicators

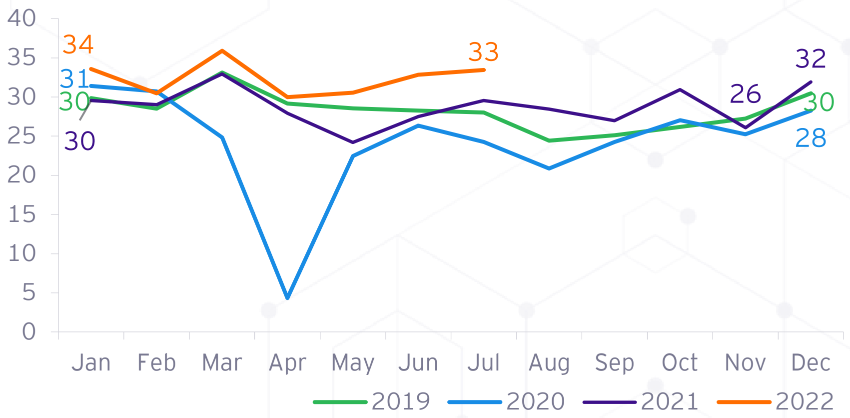
General index of industrial production



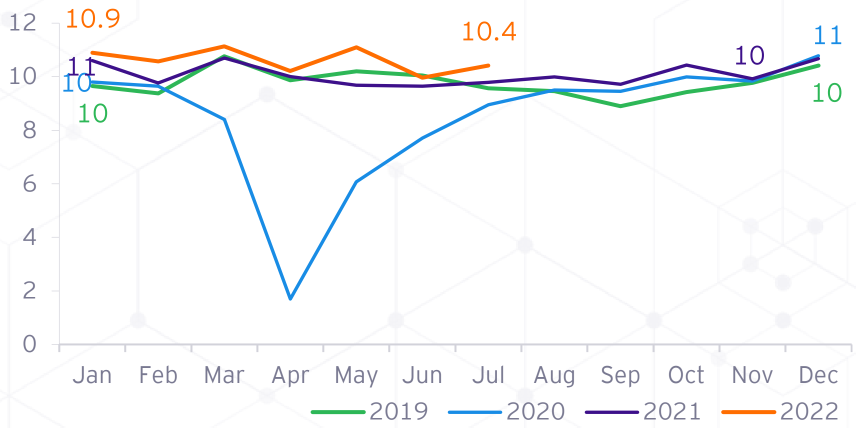
Manufacturing PMI



Cement production (million tons)



Crude steel production (million tons)



Key findings

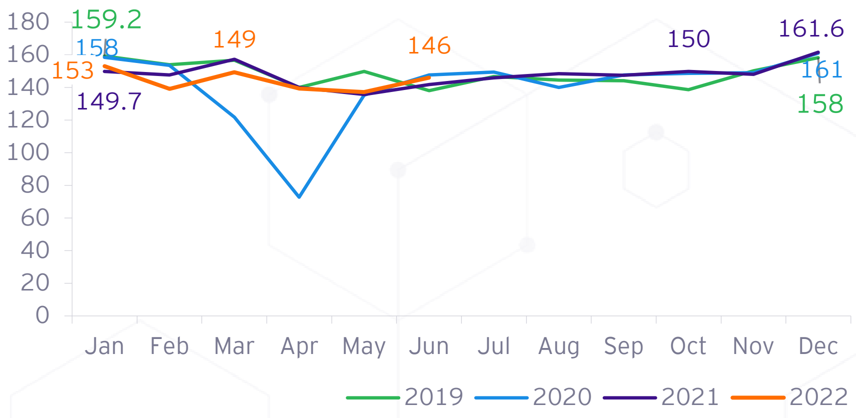
- The index of industrial production has shown a 13% growth in June over the previous year. However, this is partly a result of lower base in June 2021, which was affected by the second wave of COVID-19.
- The manufacturing PMI has remained in the expansionary territory with July 2022 at 56.4, signifying increasing growth in demand for the manufacturing sector.
- Cement production in July 2022 is higher by 11% than the corresponding month last year. This shows growing construction activity in India. Steel production is growing at 6.5% in July 2022.

Note: PMI >50 indicates expansion, <50 indicates contraction
Source: IHS Markit, DPIIT, RBI; IIP Base: 2011-12=100

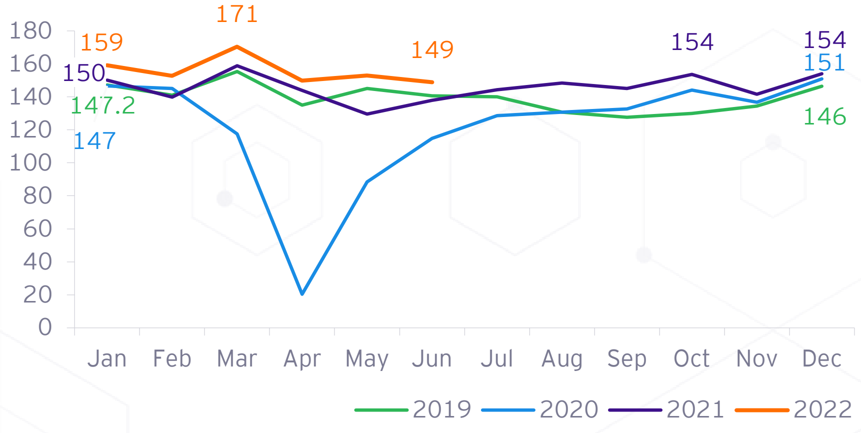
EY

Manufacturing indices for consumer non-durables, consumer durables, infrastructure and capital goods

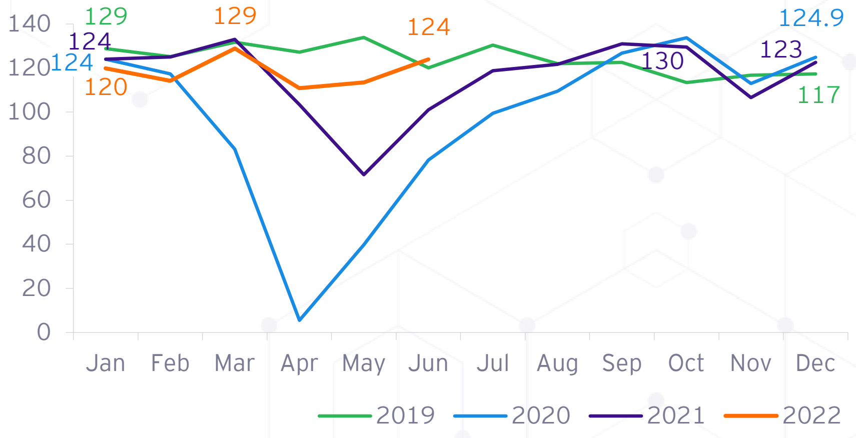
IIP consumer non-durables



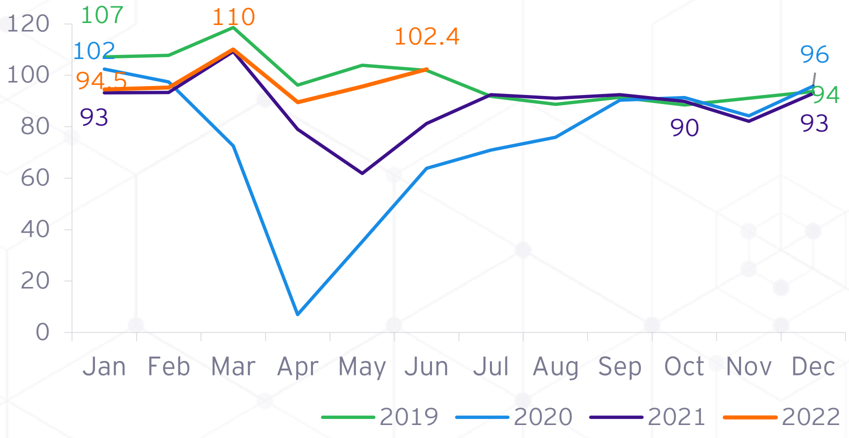
IIP infrastructure/construction goods



IIP consumer durables



IIP capital goods



Source: MOSPI
IIP Base: 2011-12=100

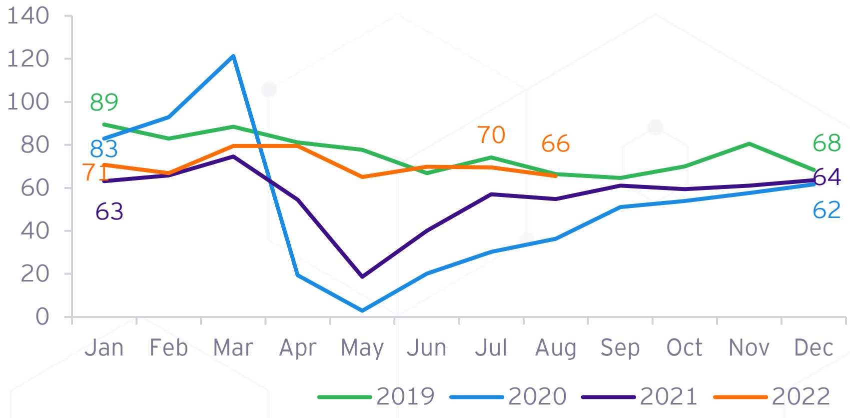
Key findings

- Infrastructure and construction goods are seeing better demand conditions with growth of 8% in June 2022.
- Capital goods have also recorded an uptick with 26% growth in June 2022. However, the manufacturing of capital goods continues to remain at or below the pre-COVID-19 levels.
- The consumption goods (both durables and non-durables) are largely in line with the pre-COVID-19 levels, showing little growth.

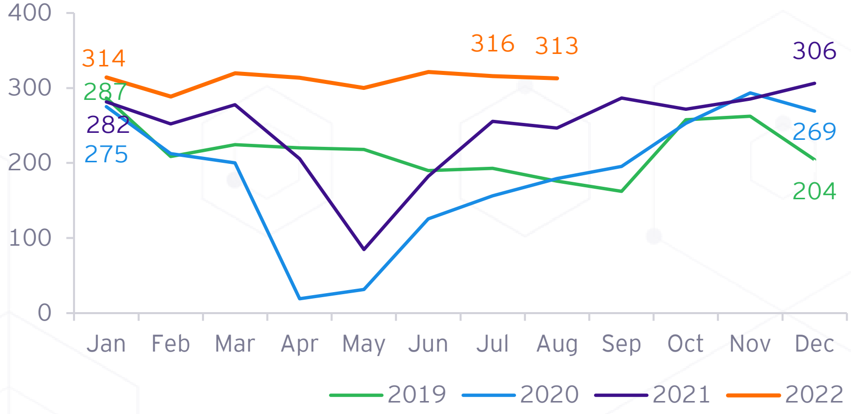
Vehicle registration trends

Manufacturing

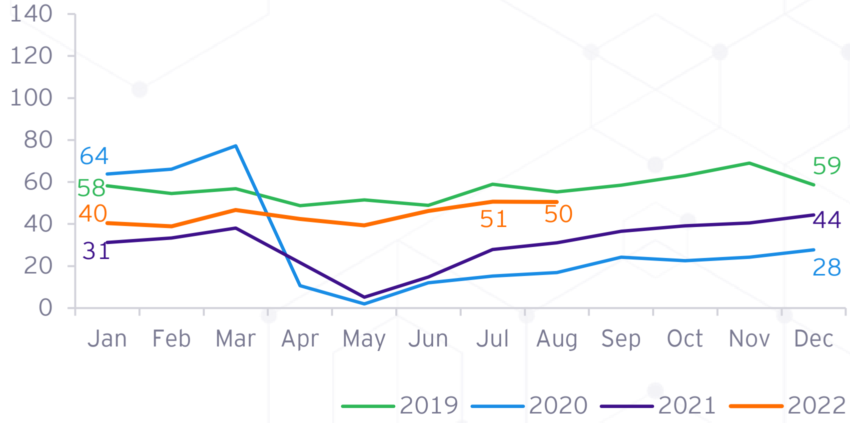
Commercial Vehicles (in '000s)



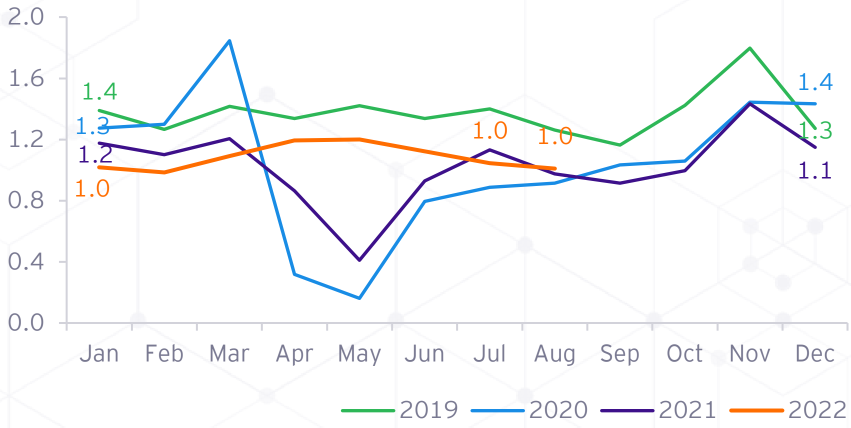
Passenger Vehicles (in '000s)



Three wheelers (in '000s)



Two wheelers (in millions)



Key findings

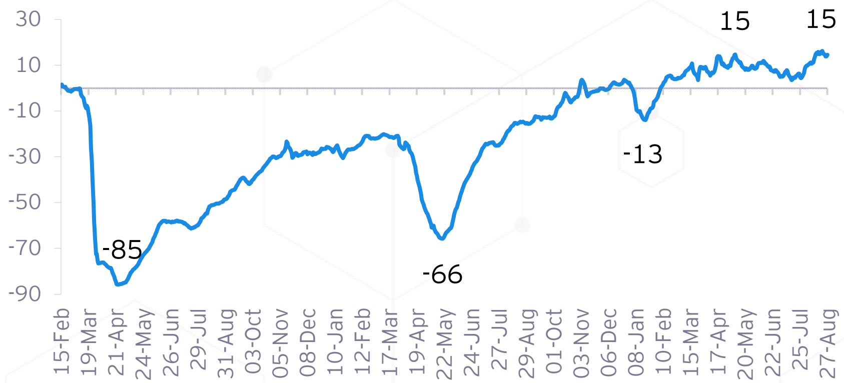
- Demand for passenger vehicles remains strong, with continued growth in registrations at across 2022 with 27% growth over year in August. This is noted despite supply bottlenecks resulting from chip shortage resulting in longer waiting period for vehicle delivery.
- On the other hand, the sales of commercial vehicles have shown recovery in the near term despite continuing to be below the pre-COVID levels. This is despite consistent growth in the road logistics sector.
- Sales of two and three wheelers also continue to be below the pre-COVID levels in 2019-20. This may be reflective of the weak rural demand.

Note: CV include all Heavy, Medium vehicles and light goods vehicles. PV represents Motors Cars data. 2w and 3W include both transport and non-transport. Telangana and Lakshadweep vehicle registrations are not covered under Vahan database.
Source: Vahan Database.

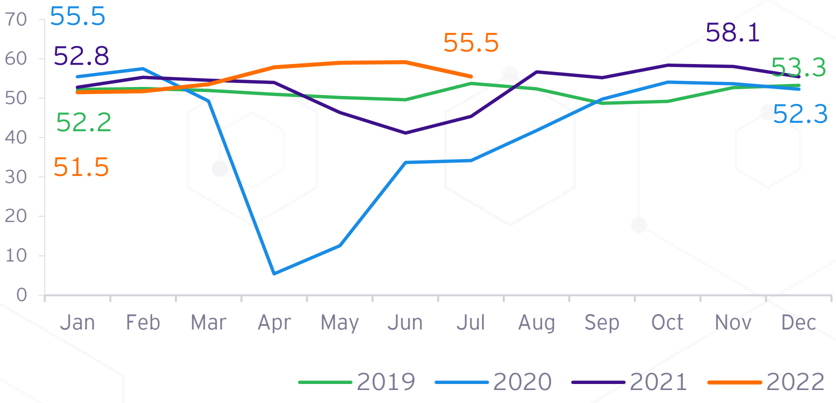
EY

Service sector indicators based on movement of people

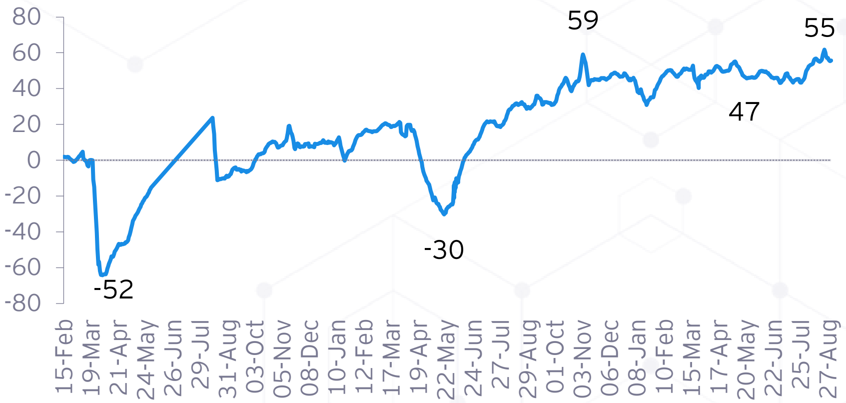
Retail and recreation: mobility change from baseline of Feb 2020



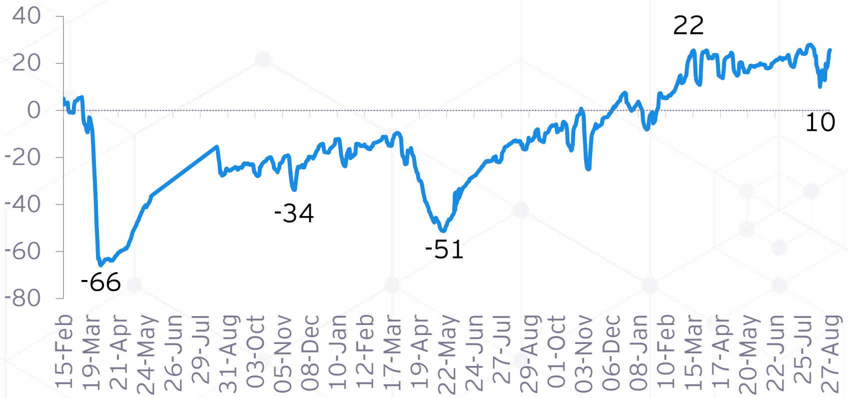
PMI services



Groceries and pharmacies: mobility change from baseline of Feb 2020



Workplace: mobility change from baseline of Feb 2020



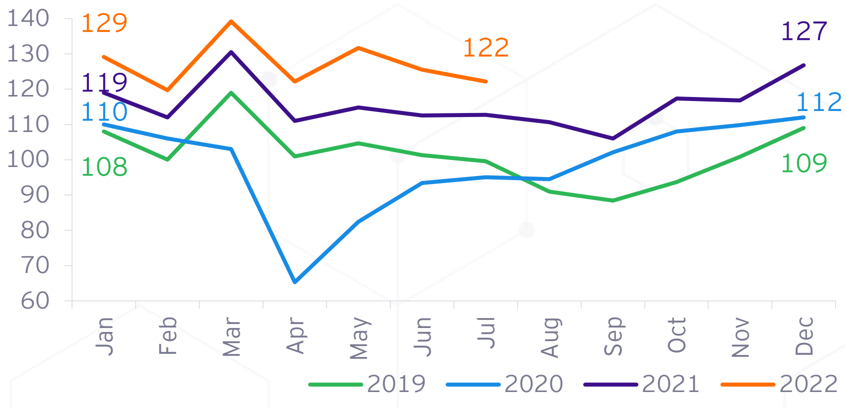
Key findings

- All mobility indicators for India are now above the pre-COVID-19 baseline. Groceries, pharmacies have grown by 56% and workplace mobilities have grown by 25% than the pre-COVID baseline.
- However, retail and recreation is only 14% higher than the baseline, suggesting further room for growth.
- PMI Services remains in the expansionary territory in 2022, indicating continued growth potential in the near term despite noting a month over month moderation in July

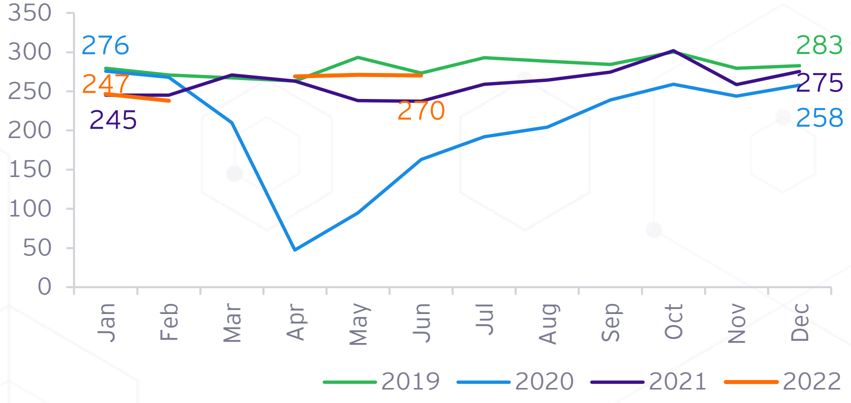
Note: PMI >50 indicates expansion, <50 indicates contraction
Source: IHS Markit, Google Mobility (Data as on 31st May 2022)

Transport: freight transportation

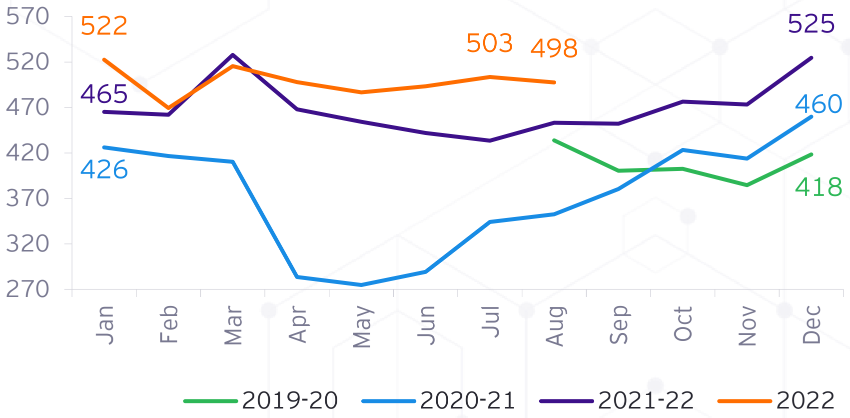
Railways freight (million tons)



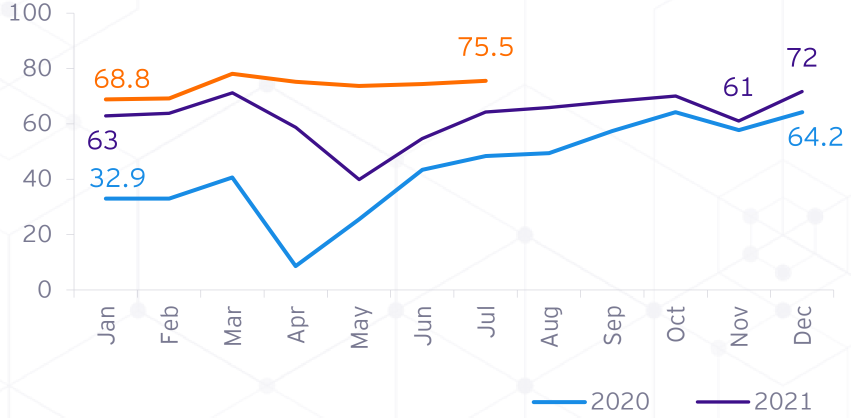
Air Freight ('000 tonnes)



JNPT container traffic ('000 TEU's)



E-way bills generated (volume in million)



Key findings

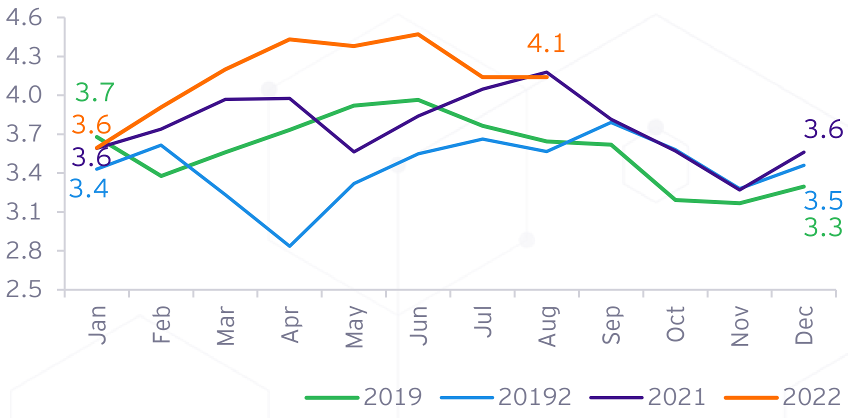
- Freight transportation sector has been growing robustly, showing the recovery in the economy and trade.
- Railway freight in July 2022 grew by 8% over previous year, while shipping freight represented by JNPT container traffic has been generally growing by over 16%.
- E-way bills generated have also grown by 18% in July 2022 on a year on year basis.

Source: Ministry of Civil Aviation, Railways, JNPT Terminal, GSTIN Network
Note: JNPT data is available from August 2019-20. Air freight data is not available for Mar'22.

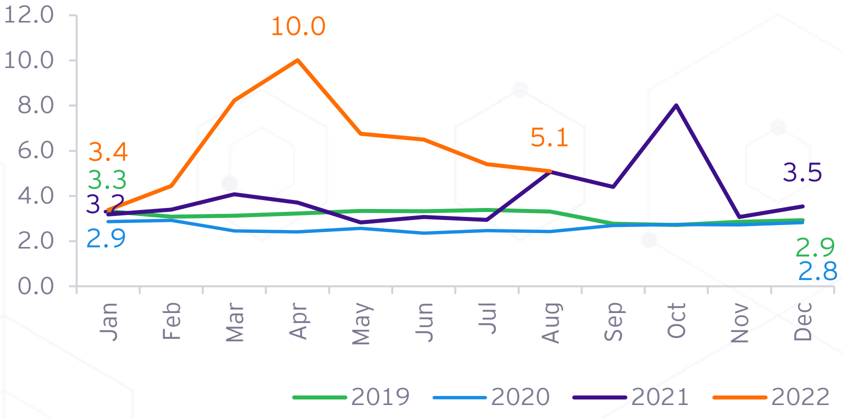
Energy consumption

Services

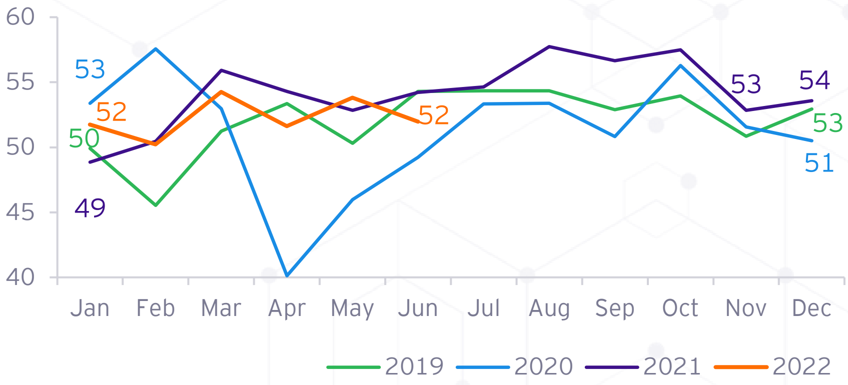
Power consumption (billion units)



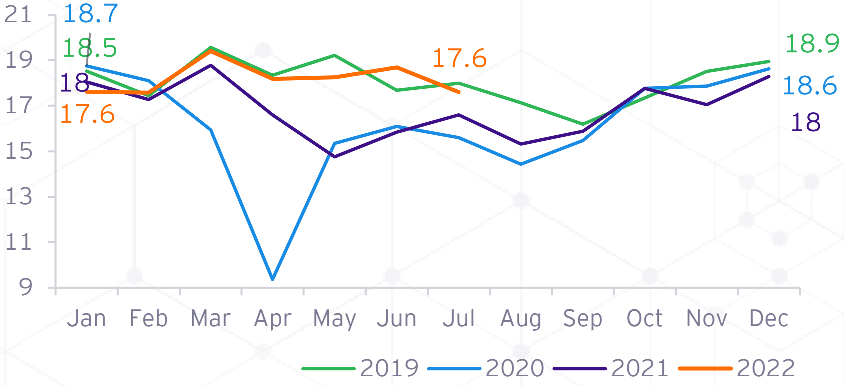
Power Market Clearing Price (Rs 'per KWh))



Consumption of natural gas ('00 MMSCM)



Consumption of Petroleum Products ('000 metric tons)



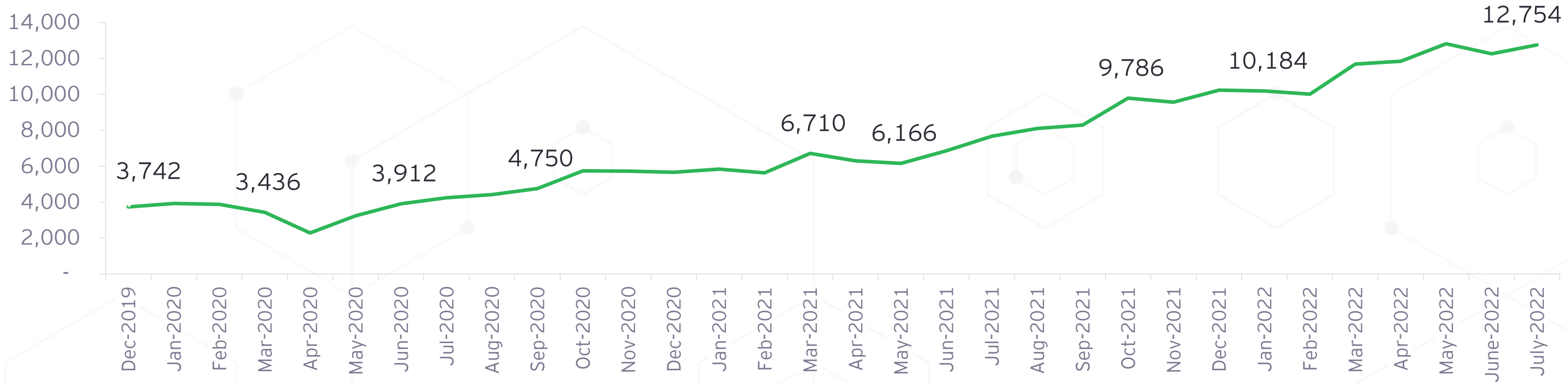
Key findings

- After reaching peak demand of 4.5 billion units in June on account of heatwave, the demand for power consumption has noted a decline. In August 2022, the power consumption was lower than August 2021.
- This trend is also reflected in the short-term power prices on the power exchange markets, with a marked decline from INR 10/KWh to about INR 5.1/KWh
- Consumption of natural gas and petroleum products remained close to pre-COVID-19 levels

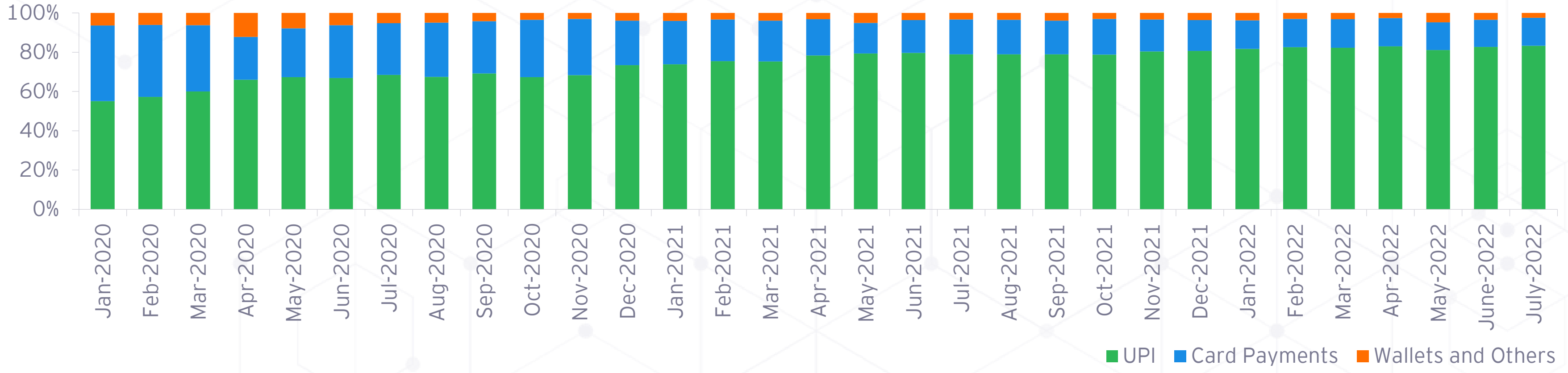
*Note: Power consumption for August'22 data is average of daily data available as on 31st August 2022. Market Clearing Monthly Prices are simple average of non-zero prices in (No of days in a month*24*4) no of 15 minutes time block of respective month.*
Source: Ministry of Petroleum, Coal & Power and Indian Energy Exchange. MMSCM stand for Million Standard Cubic Metre.

Digital payments trends

Total digital retail payments (in INR billion)



Share of different segments in total digital retail payments



Key findings

- Digital payments are continuing to increase in India
- UPI has been gaining market share at the expense of other modes of digital payments
- UPI has garnered a dominant share of over 80% in digital retail payments.

Note: Others include ECS, AEPS, APBS and BHIM
Source: TRAI, RBI

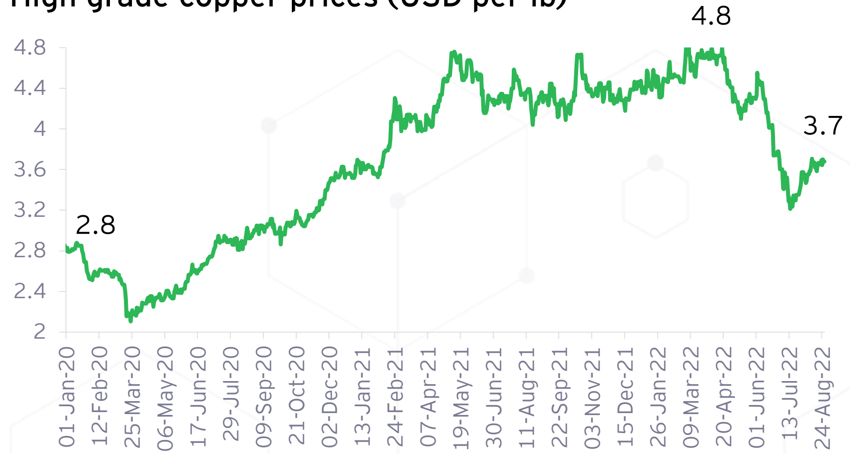
5

Commodities, markets and investments

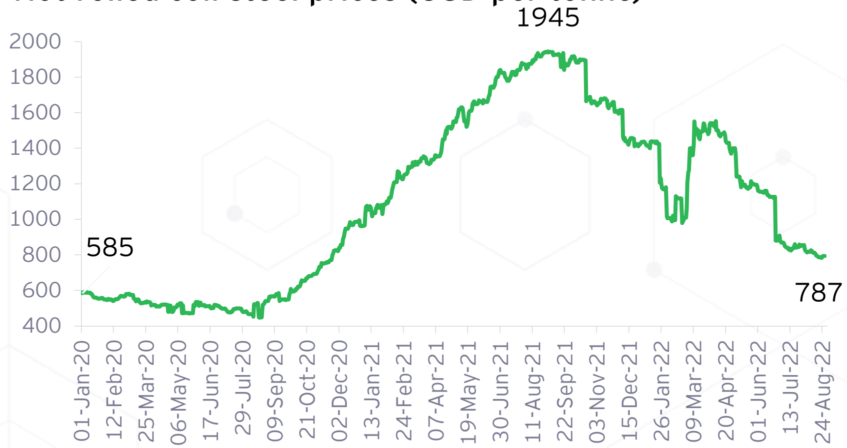
Trends in commodity prices (metal)

Commodity and input price trends

High grade copper prices (USD per lb)

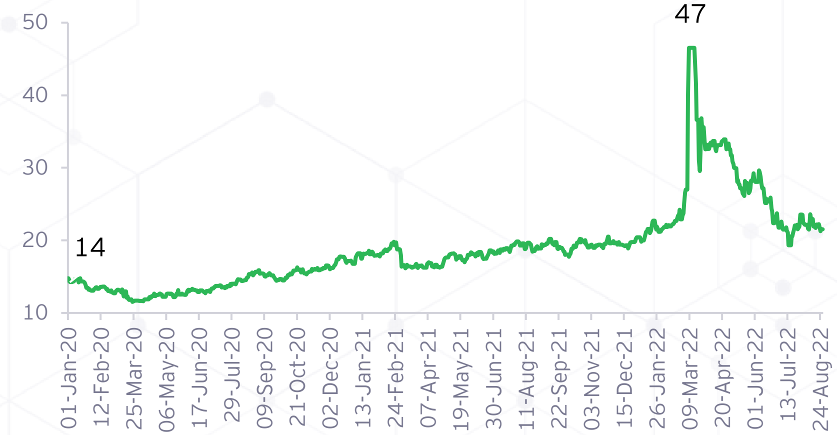


Hot rolled coil steel prices (USD per tonne)



Aluminium price per MT (in USD)

Nickel per MT price (in '000 USD)



Key findings

- Globally, prices of various metals have softened following the peaks reached due to geopolitical turmoil and market uncertainty of supply from key countries.
- All mineral and metal prices had shot up since the conflict in Ukraine.
- While nickel and aluminium prices have softened significantly, they still remain above levels recorded in January 2020.
- The geo-political uncertainty on account of the Russia-Ukraine war continues to pose upside risk to metal prices.

Note: 1. Data as on 31st August 2022; 2. Copper Prices- High Grade, Chicago Mercantile Exchange , Steel Prices- Domestic Hot Rolled Coil,
Source: CapitalIQ, MCX

EY

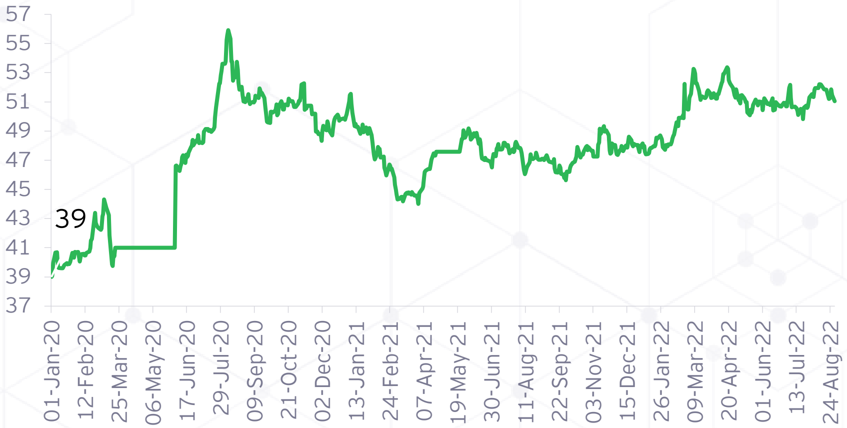
Trends in commodity prices (energy and gold)

Crude oil - Brent price (US$ per bbl)

Coal Price per ton (in US$)

Natural gas per mm BTU (Henry Hub) (in US$)

Gold price per 10 grams (in '000 INR)



Key findings

- Unlike the metal commodity prices, the energy markets prices have not seen significant softening
- Indian economy is vulnerable to high energy prices as it affects the import costs and reduces GDP growth while driving retail inflation.
- The energy markets may remain volatile in uncertain global geopolitical conditions, with a risk of supply crunch in Europe during the 2022 winter.

Note: 1. Data as on 31st August 2022; 2. Copper Prices- High Grade, Chicago Mercantile Exchange; Steel Prices- Domestic Hot Rolled Coil; Crude oil and Natural gas price, NYMEX
Source: CapitalIQ, MCX

Trends in commodity prices (agriculture)

Soya oil per kg price (in INR)

Wheat Price per MT (In US$)

Cotton price per bale (in '000 INR)

Palm (CPO) oil per 10 kg (in INR)

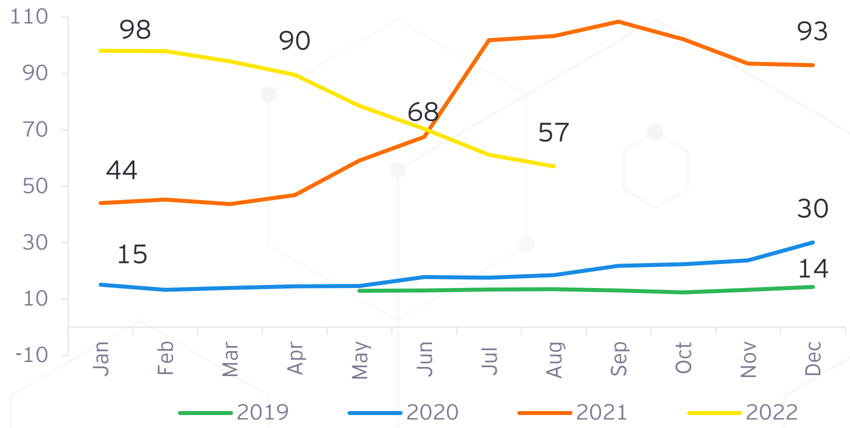
Key findings

- For commodities like wheat and vegetable oils, there is a softening in prices on account of easing supply bottlenecks while cotton continues to remain close to its April peak.
- Even as global agricultural commodity prices have seen moderation in the recent months, they continue to remain significantly higher than the pre-conflict levels with continued upside risks.

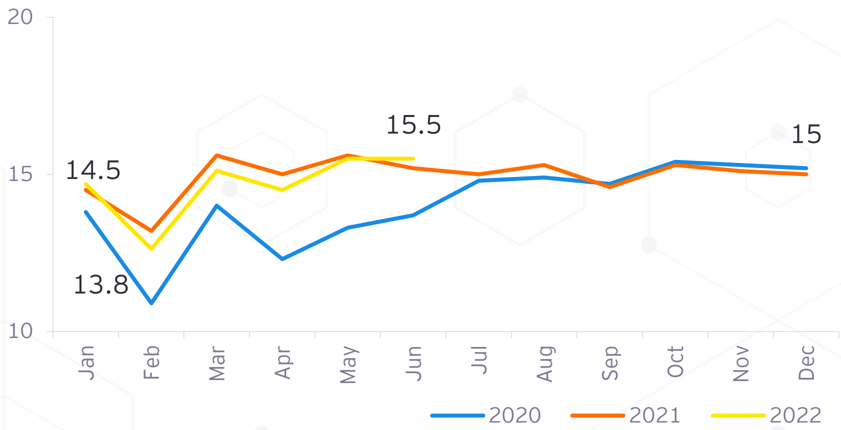
Note: Data as on 31st August 2022
Source: MCX, CapitalIQ

Global container freight transportation volumes and rates

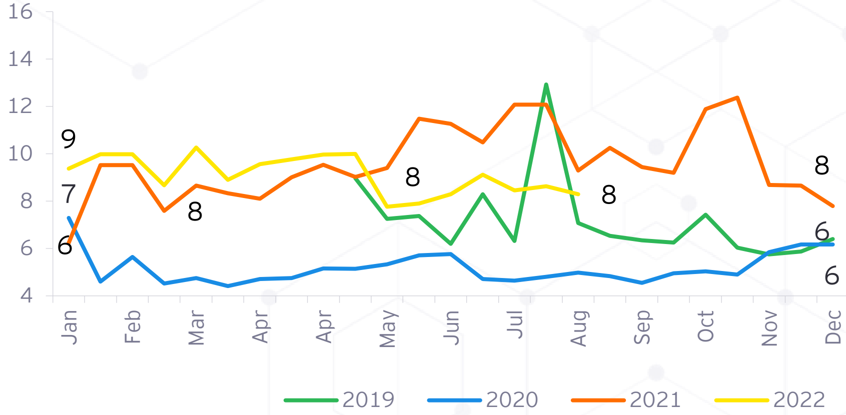
Global container freight index (in '00 US$)



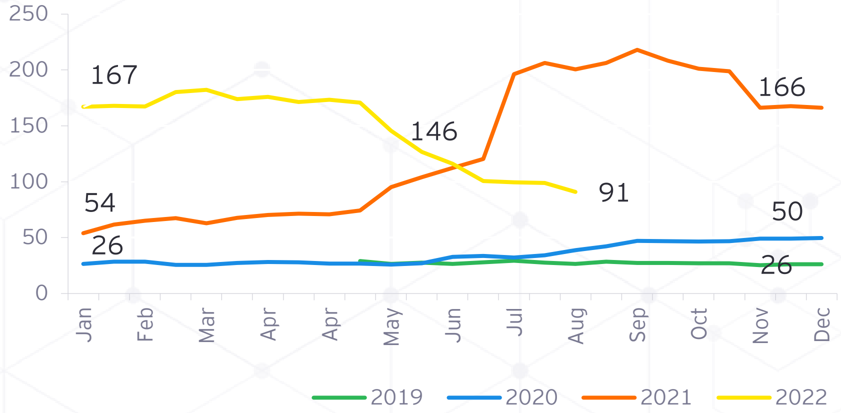
Global container traffic volume (million TEU's)



Container freight prices – North America East Coast to China/East Asia (in '00s US$)



Container Freight prices – China/East Asia to North America East Coast (in '00s US$)



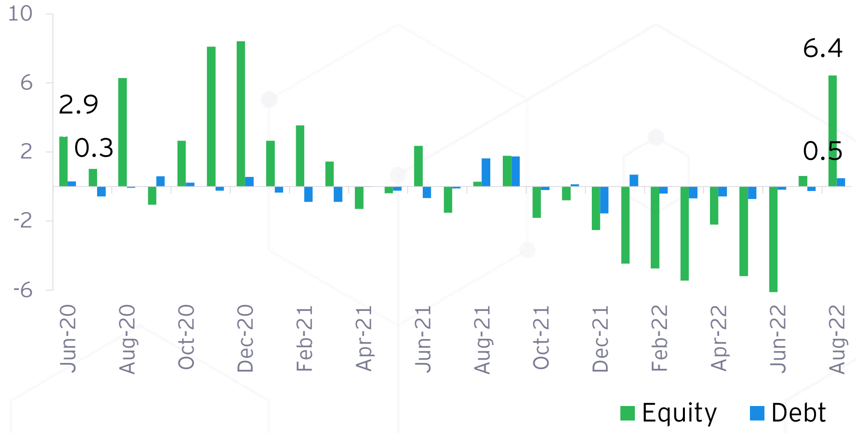
Key findings

- The global container freight index has noted a significant decline to US$ 5,700 from a peak of US$ 9,800 in January 2022
- There is a marked decline noted in container freight prices from China/ East Asia to North America East Coast from a peak of US$ 16,705 to US$ 9,085 in August 2022

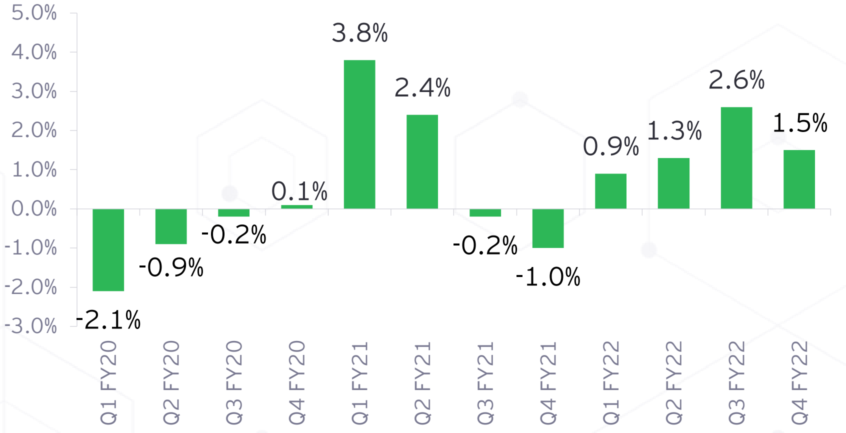
Note: Container freight index and freight prices as of 26th August 2022
Source: FBX: Global Container Freight Index, Container Statistics

Foreign capital flows and exchange rate position

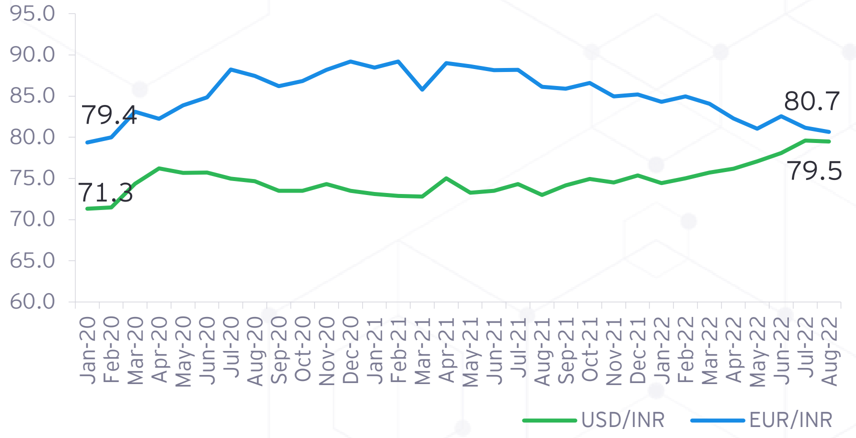
FPI investments (in US$ billion)



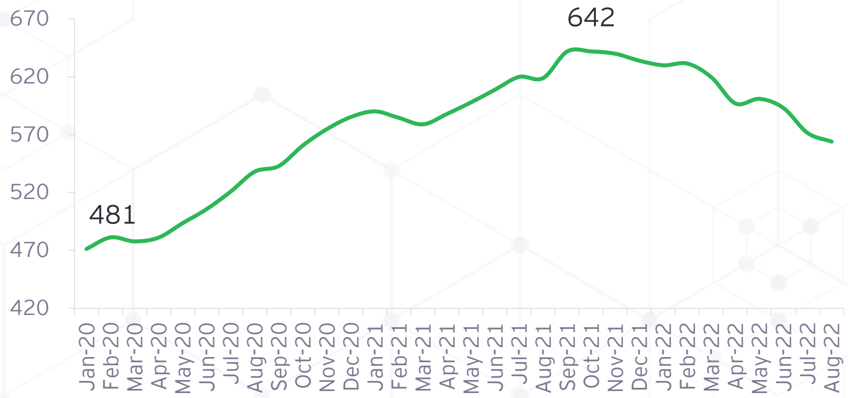
Current account deficit (as percentage of GDP)



Exchange rates



India foreign exchange reserves (in US$ billion)

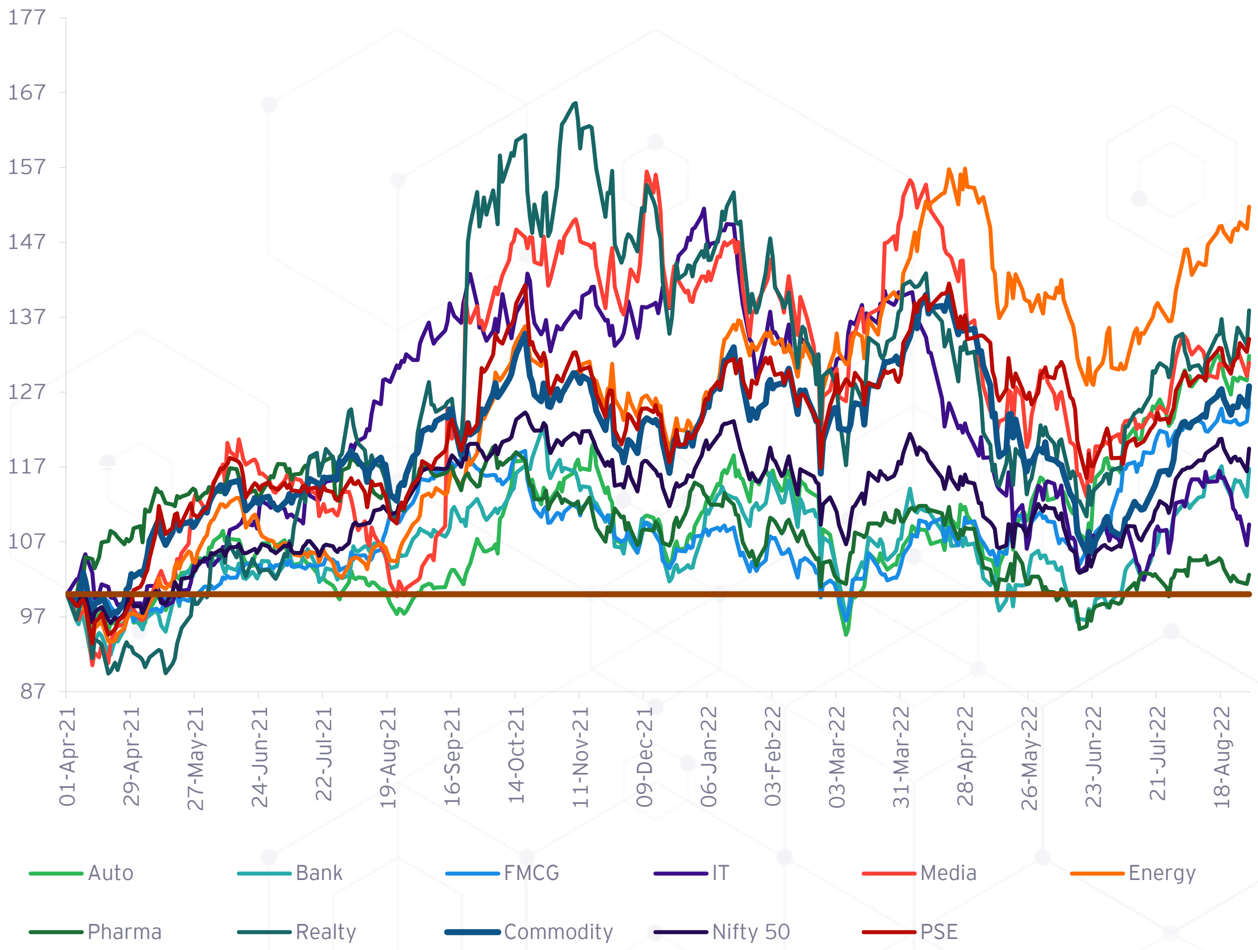


Key findings

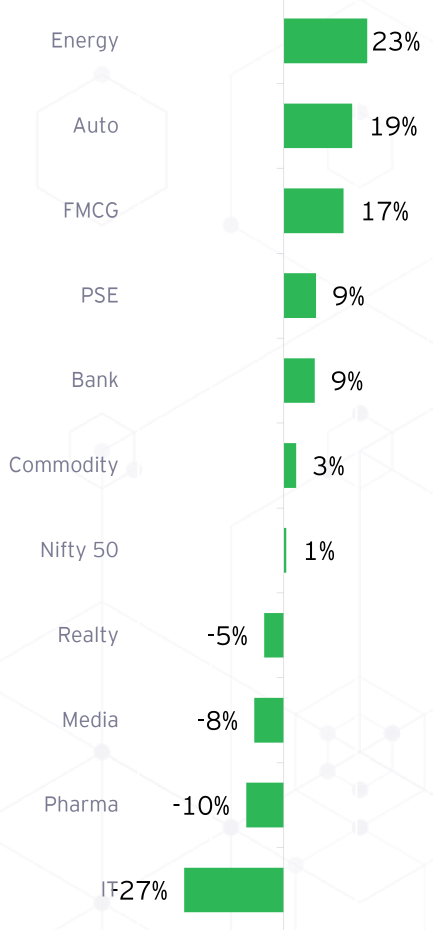
- The geo-political uncertainty and interest rate hikes globally, especially by the Fed, have led to continued strengthening of the dollar
- The rupee depreciated to an all-time low of 81.1 in July 2022 against the dollar. However, the rupee has performed better than other currencies and, for example, has been appreciating against the euro.
- The foreign portfolio investments have recovered to the highest flows in equity markets since December 2020 due to India's healthy macroeconomic environment relative to other emerging market economies, as also being reflected in relatively low current account deficit and healthy forex reserves (US$ 560 Billion) that are higher than pre-COVID-19 levels.

Source: DBIE, RBI, FBIL, NSDL
All date available as on 31th August 2022

NSE indices (% change YTD)



NSE Indices (% change YTD)



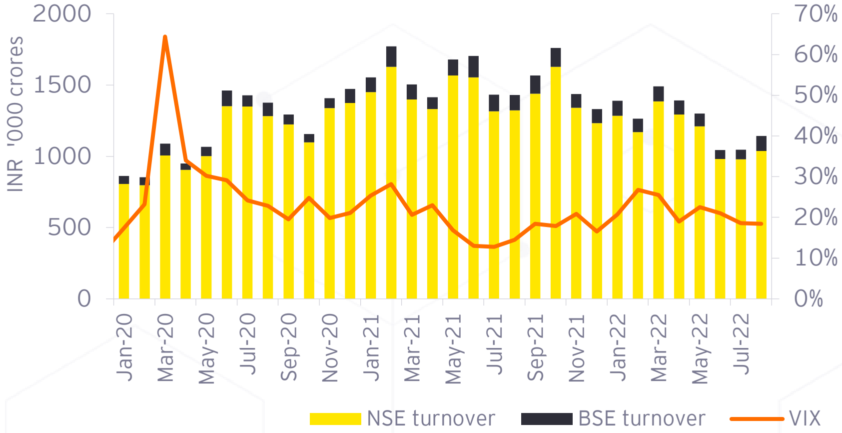
Key findings

- The FPI equity investment rebound in August 2022 has supported India's stock prices, which have bounced post correction in FY2022-23, led by energy, auto, FMCG, PSE, bank and commodity stocks.
- IT sectoral index has seen a significant decline of 27% on account of profit booking, hiring and retention challenges in the industry and growth slowdown in global markets, which are major clients to the domestic IT firms.
- On the other hand, besides energy, auto and FMCG stocks have performed well – reflecting recovery in consumption in India.

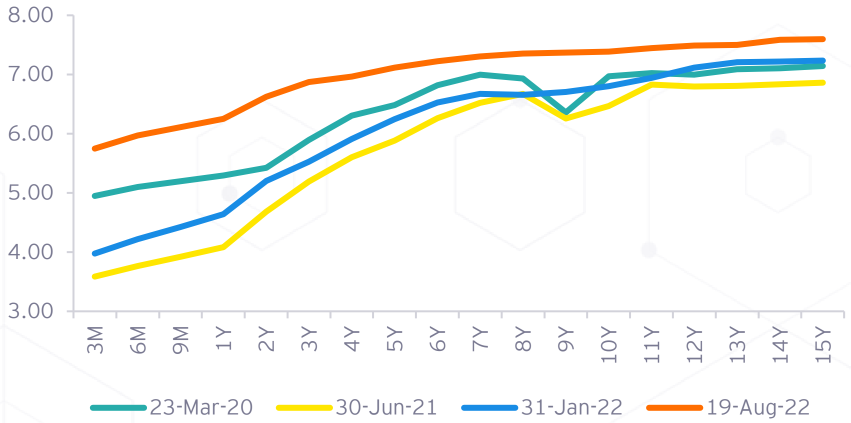
Source: NSE, Bloomberg Quint
Data available as on 31st August 2022
Base for calculating % change is 1st April 2021

Stock market turnover and interest yields

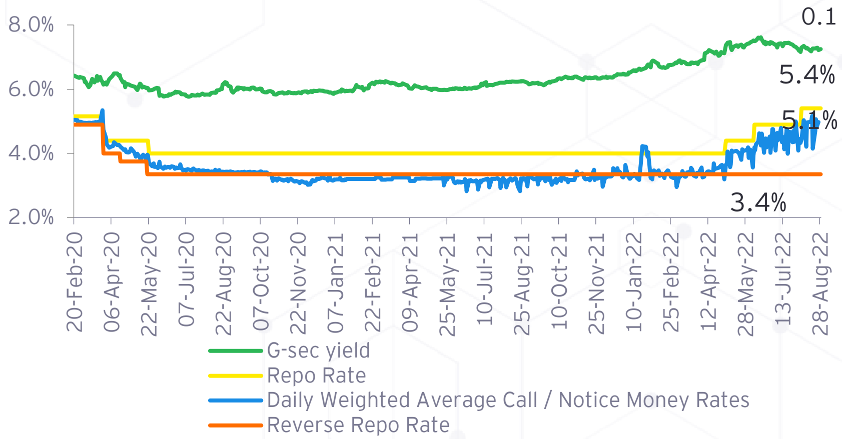
Stock market turnover and volatility



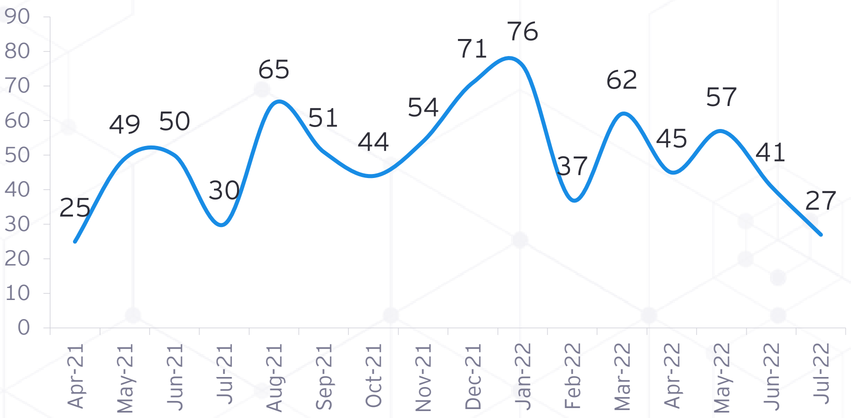
India sovereign yield curve (Annualized)



G-Sec yield (10yr), policy rate and spread



Corporate Bond Spread over G-sec AAA - (bps)



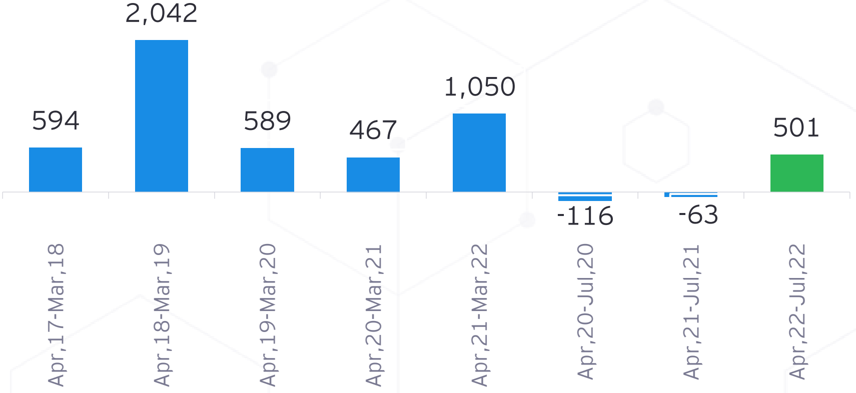
Key findings

- Yields on the 10-year Government securities after being below 6% in May 2021, have risen to 7.3% as at end of August 2022, reflecting an increase in repo rate, reducing the spread between G-sec yield and repo rate
- The RBI increased the repo rate to 5.4% in response to rising inflation and interest rate hikes by various central banks globally
- Major interest rates in the economy, such as the daily call rates, have seen an uptick, trending closer to the repo rate.

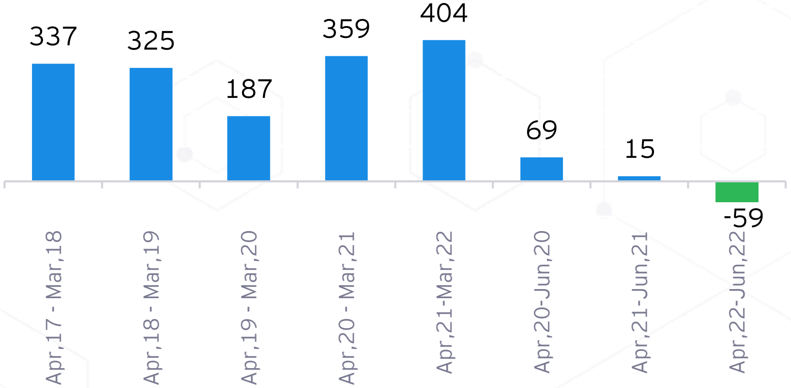
Source: NSE, BSE, CCIL and FBIL. Data available as on 31st August 2022
VIX is a volatility index based on the NIFTY Index Option prices. It indicates the expected market volatility over the next 30 calendar day

Credit flow trends

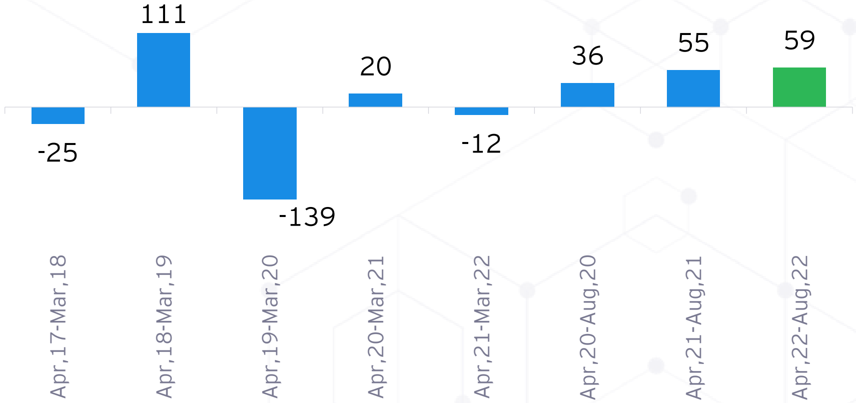
Flow of gross non food credit of scheduled commercial banks (Rs '000 crores)



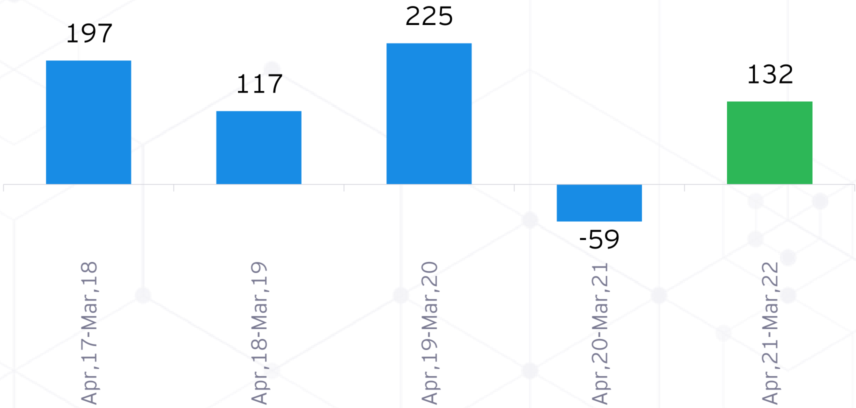
Change in outstanding corporate bonds listed on NSE & BSE (Rs '000 Crores)



Change in outstanding commercial paper (Rs '000 crores)



Change in external commercial borrowings (in Rs '000 crores)



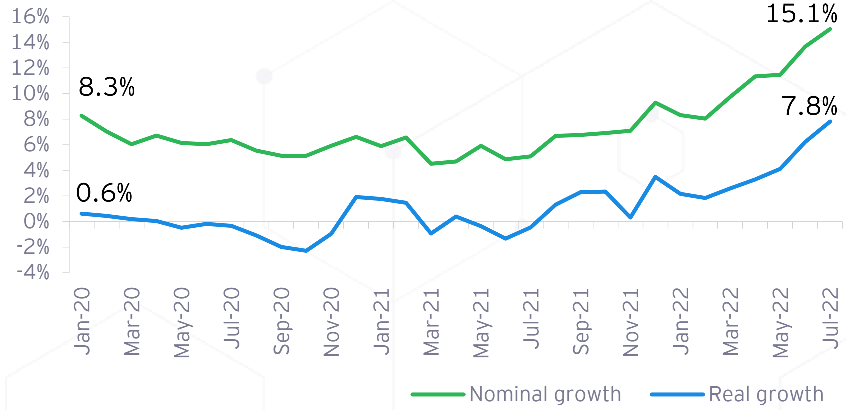
Key findings

- The outflow of credit from scheduled commercial banks peaked in 2018-19 and has been muted since then. However, credit growth in 2021-22 is higher than for the same period in 2019-20 and 2020-21.
- The non-food credit outflow till June of this fiscal has been higher than the last two years, which were impacted by COVID-19. Similar trend is also noted in commercial paper.
- While the growth in credit is encouraging, this is partially driven by larger inflation.

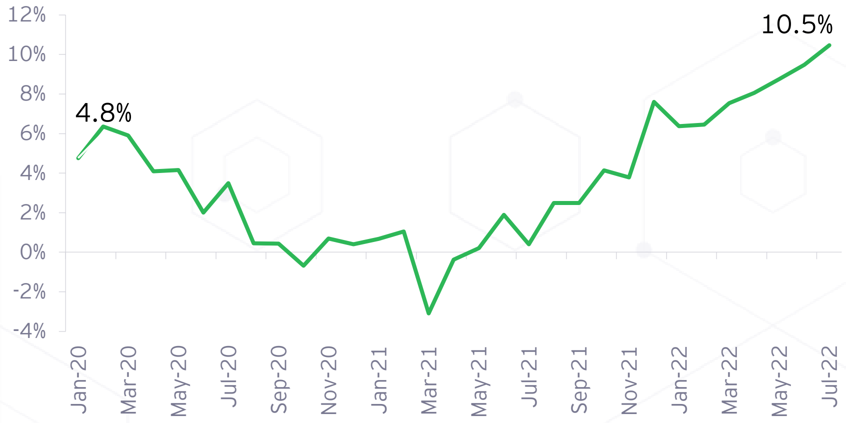
Source: RBI, SEBI
Note: Outstanding commercial paper is as of 15th of August
Note: March 2017 and 2018 use old reporting format for non food credit

Bank credit growth by sectors

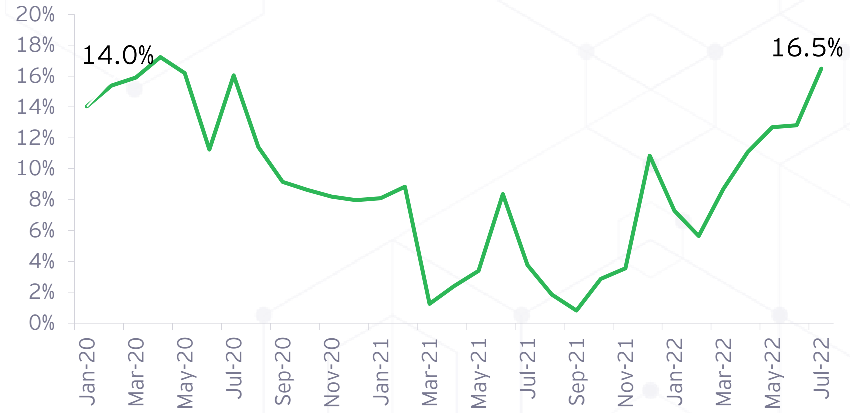
Growth rate of non food credit of scheduled commercial banks



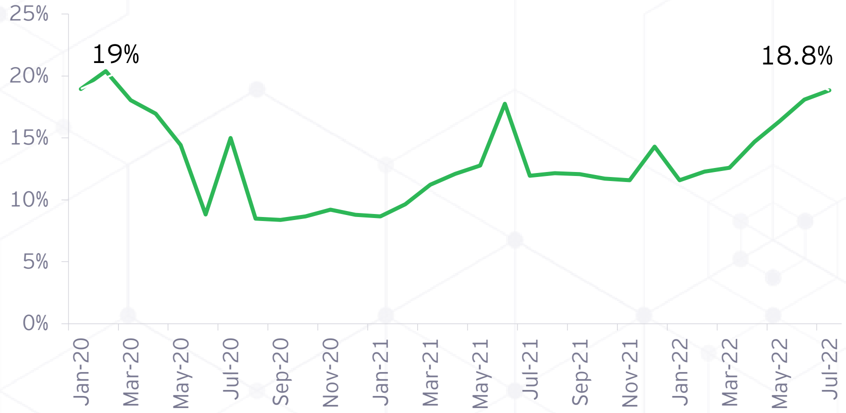
Growth rate of bank credit to industry



Growth rate of bank credit to service sector



Growth rate of bank credit to personal loans



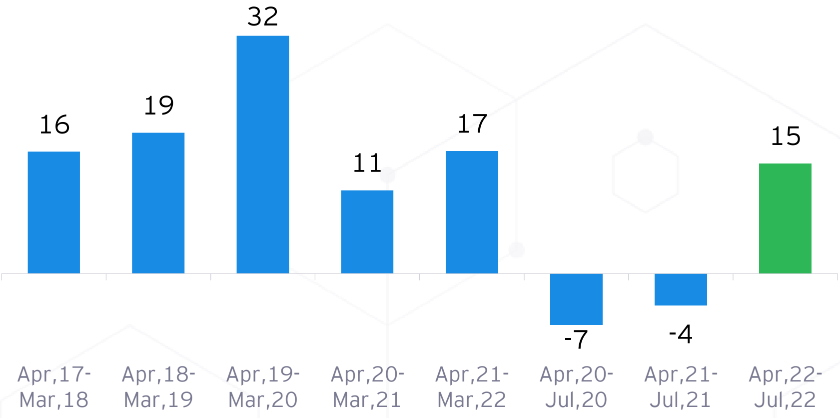
Source: RBI
Growth rates have been computed based on the change over 12 month period
Apr and May 2020 inflation based on Jan-Mar 2020 average

Key findings

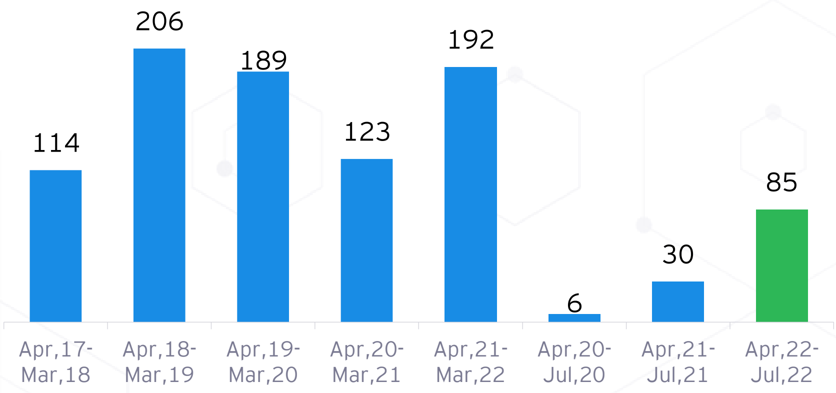
- The demand growth in non-food credit at a nominal level has reached double digits in July 2022, the highest since COVID-19. The real growth after removing consumer price inflation is at 7.8%, which is also highest since the outbreak of COVID-19.
- The growth in bank credit is driven by pick up in loans to industry, services as well as personal loans.
- The growth in personal loan reflects consumer confidence in the future growth of the Indian economy.

Change in gross personal loans advanced by banks

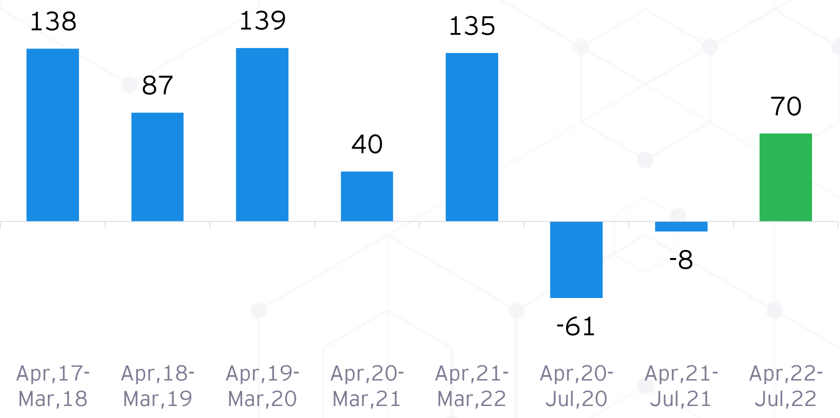
Credit card debt (in Rs. '000 crores)



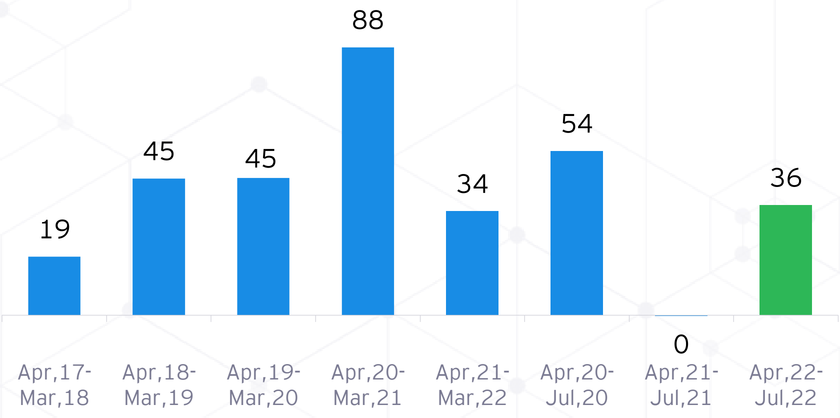
Housing loans (in Rs. '000 crores)



Other personal loans (in Rs. '000 crores)



Vehicle loans (in Rs. '000 crores)



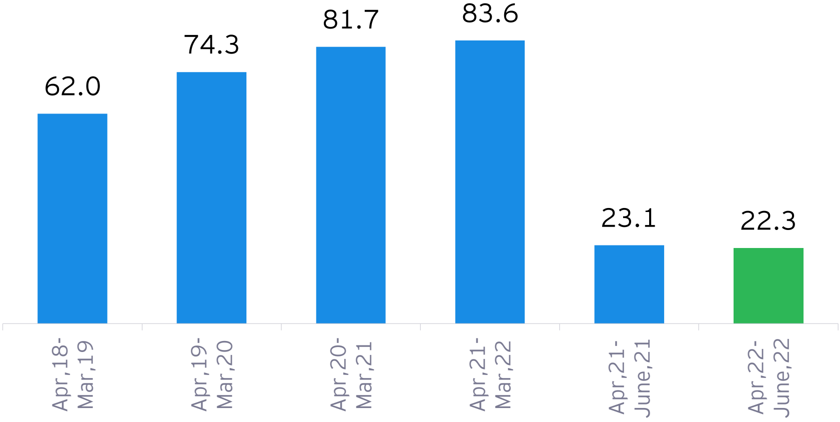
Key findings

- All categories of personal loans show a recovery during the April to July 2022 period – which is supporting the consumption growth as well as investments in the housing sector.
- The vehicle loans recorded till July of this fiscal year are higher than the full fiscal year of 2022.

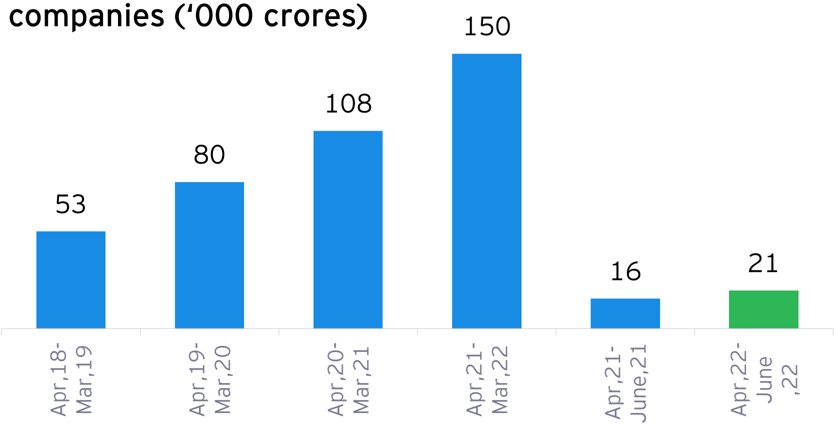
Source: RBI
Other personal loans include consumer durables, advances to individuals and FDs, education, other personal loans

Fund raising trends

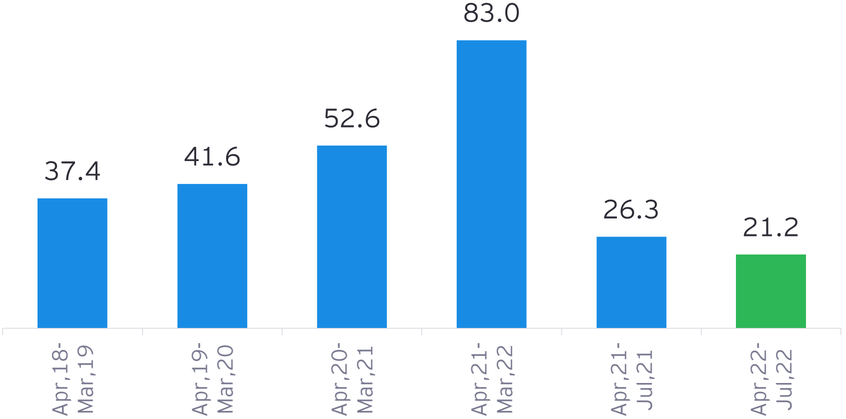
Gross FDI inflows in India (US$ billions)



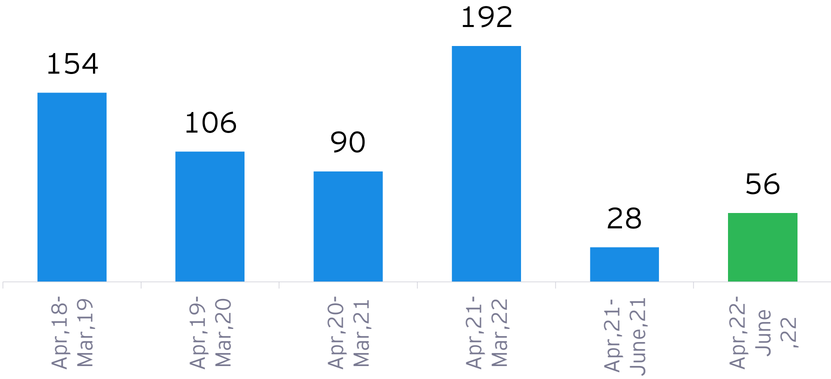
Money raised by Non-Governmental companies ('000 crores)



PE/VC investments (US$ billions)



No. of Issues to raise money by Non-Governmental companies



Source: RBI, EY Analysis

Key findings

- PE/VC investments remain robust this fiscal, though recording a 19% decline over April to July period of the previous year. This is due to global uncertainties and higher interest rates in the US causing PE/VC investors to hold back on investments
- Despite this, the overall FDI flows during April-July have remained healthy – broadly tracking FY2022 where India received more than $84 billion FDI.
- Money raised by non-government companies has continued to grow strongly during the current financial year and is up nearly 39% in 2021-22 vis-à-vis the previous financial year.

6

Government's policy thrust areas

India's current policy thrust

Interest rate

- RBI increased repo rates by 50 basis points from 4.9% to 5.4% on 05 August 2022
  - Future interest rate changes would be based on how inflation and growth unfold.
  - Despite the hike in interest rates, RBI expects the economy to grow at 7.2% with financial and macro-economic stability.
  - Inflation is expected to come down to 5.8% by Q4 of FY23 (i.e., within the 2% to 6% range targeted by RBI).
  - While RBI feels that inflation may have peaked, the continued global uncertainties may impact the inflation outlook
- RBI has signaled that it would intervene in the exchange markets to manage volatility and remains confident on the level of forex reserves

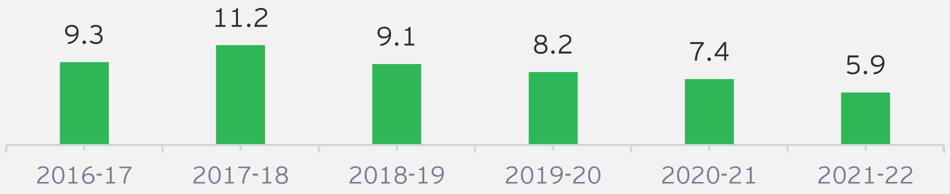
Actions that could result in internationalization of Rupee in the long run

- Recent geo-political events have encouraged countries to explore bilateral trade in currencies other than US Dollar, and allow greater level of foreign investment in bond markets
- Following announcements indicate that in the long run there could be greater international acceptance of the Rupee
  - Export and Import transactions i.e., invoicing, payments and settlements can be done in Rupee
  - Authorised Dealer (AD) bank in India may open Special Rupee Vostro Accounts of correspondent bank/s of the partner trading country
  - Greater level of Foreign Portfolio Investment in Government securities and corporate debt to be allowed
  - Acceptance of Indian payment systems i.e., RuPay and UPI outside India

Clean up of banking sector balance sheets: Falling non-performing loans

- The concerted action taken by the government and the RBI to reduce the non-performing loans from the banking sector have yielded results with gross NPAs at 5.9% of total advances at the end of 2021-22, compared to 11.2% in 2017-18.
- Prevailing macroeconomic position of high inflation (particularly the wholesale price index WPI) is also likely to aid reduction in NPAs in some sectors.
- This has released constraints on the bank credit to grow.

Gross Non-Performing Loans at end of FY (% of total advances by banks)



Source : RBI and PIB

India’s current policy thrust

Decarbonisation

- The Energy Conservation (Amendment) Bill, 2022, was passed by the Lok Sabha on 8 August 2022. It aims to promote energy efficiency and conservation through regulating energy consumption by equipment, appliances, buildings, and industries.
- The Bill paves the way for the government to push its decarbonization agenda through the following various measures:
  - Specify carbon trading and mandatory usage of energy from non fossil fuel sources
  - Monitor and regulate high energy usage businesses such as steel, cement, petrochemicals, chemicals, mining, transportation sector, commercial buildings
  - Mandate energy usage standards for appliances and building code
- Specify open access rules to facilitate greater usage of green electricity by businesses seeking to decarbonize
- Invite bids for offshore wind power for setting up of 4 GW capacity

GST

- GST, even as it completes five years of implementation, continues to be an evolving reforms process. The current focus of the government is to rationalize the tax rates, improve ease of compliance, tighten administration to prevent revenue leakages, and minimize litigation.
- The 47th GST Council meeting held in June 2022 took some important decisions:
  - Mandatory GST registration waived for small online sellers. Earlier, only the small offline sellers were exempted from compulsory registration.
  - A Ministerial panel is reviewing the rates rationalization and is expected to submit its report by September 2022.
  - To correct the inverted duty structure, higher GST was imposed on certain goods and services, and tax exemptions have been withdrawn for some items. The tax rate was also reduced in some cases.
  - A ministerial panel is to be set up to address various concerns raised by the states on the GST appellate tribunal.
  - The compensation cess has been extended till March 2026 to help the center pay back the loans it had taken to compensate the states during the COVID-19 years.
  - Decision on the states’ demand to continue with the compensation has been deferred

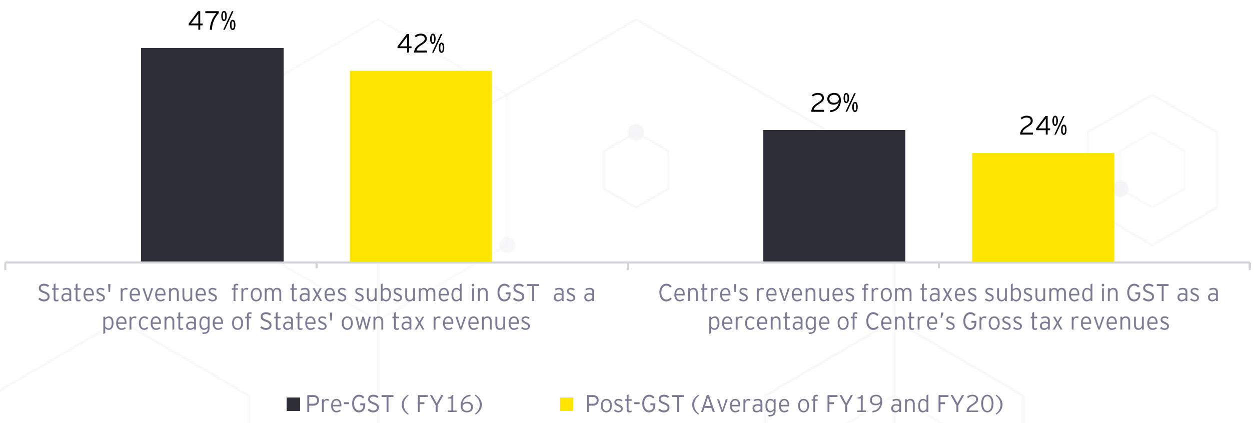
Data privacy and digital laws

- The government has withdrawn the bill on data privacy and is working on a revised draft.
- It is proposed to bring in new legislations in place of the Indian Telegraph Act, 1885 and Indian IT Act, 2000.

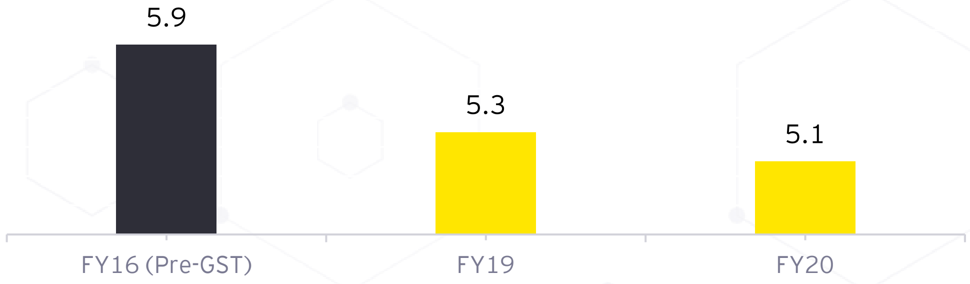
Source : RBI and {IB

Downward rate revision in effective GST rate affected governments' revenues from taxes subsumed in GST, but are beginning to stabilize with base broadening

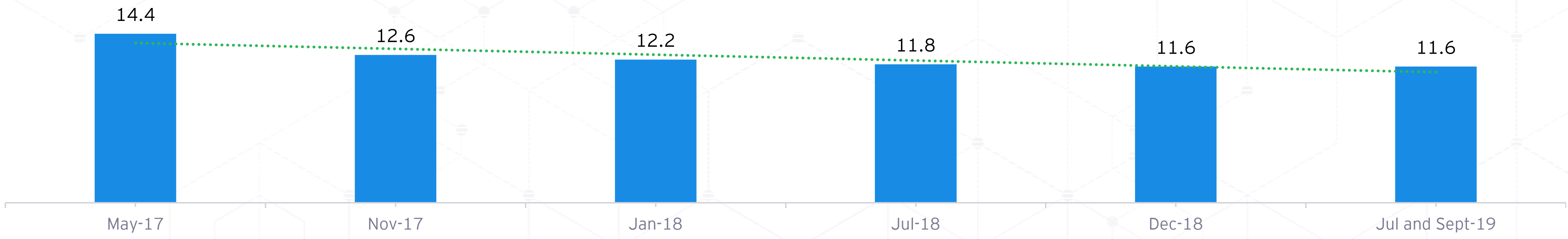
Revenues from taxes subsumed in GST



Taxes subsumed in GST (center + states) as percentage of GDP (audited)



Weighted Average (Effective) GST Rate (%)



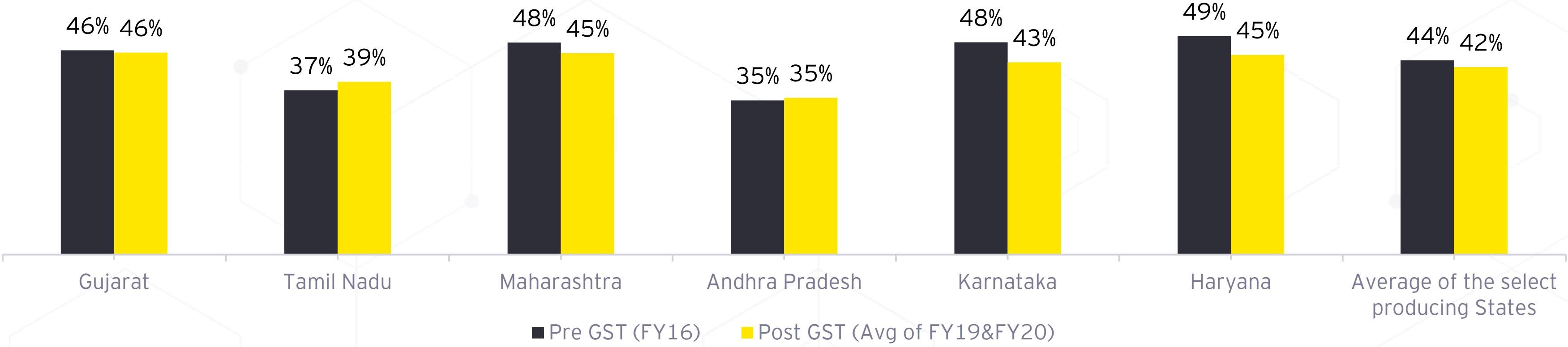
Notes:-

- Data for FY 2020-21 not taken as COVID impact may not reflect the right collections. Data for FY 22 not considered as only revised estimates are available
- The data does not include Compensation cess. Weighted Average GST rate is calculated as GST paid divided by goods and services consumed.

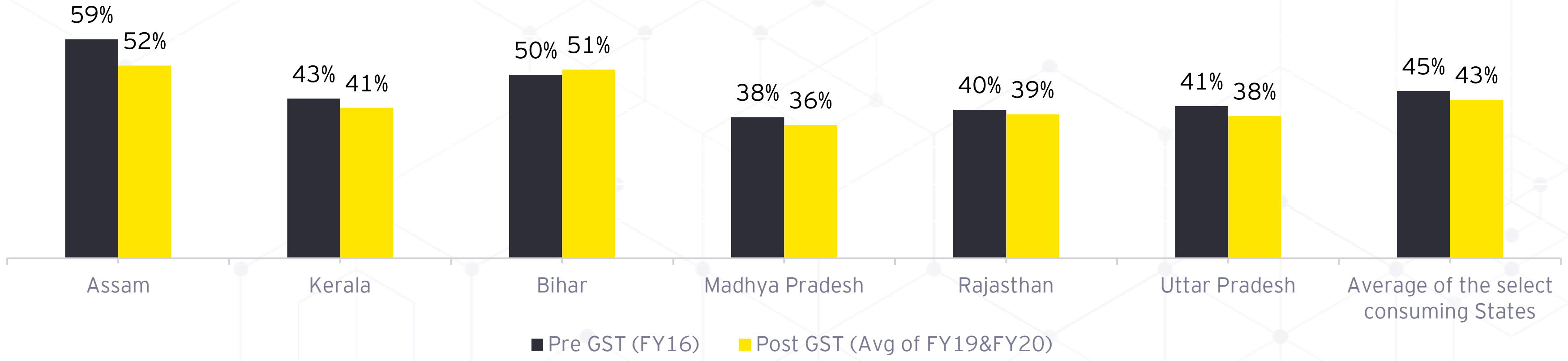
Source:- RBI Study, Rajya Sabha Question, MOSPI, PIB Press releases

In most states (both producing and consuming), revenue from taxes subsumed in GST was affected in the first two years of GST implementation

Revenues of the select producing states from taxes subsumed in GST as percentage of states' own tax revenues



Revenues of select consuming states from taxes subsumed in GST as percentage of states' own tax revenues



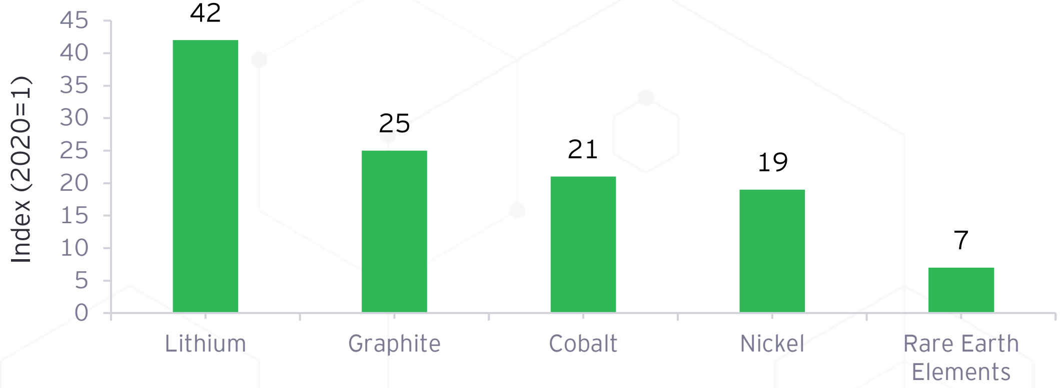
Key findings

- On an average, both the selected producing states as well as the consuming states witnessed a 2% decline in revenues from taxes subsumed in GST as a proportion to the states' own tax revenues.
- Considering the individual states, the tax collections for Tamil Nadu improved, while those of Gujarat and Andhra Pradesh remained at same levels, when taken as a proportion to their overall own revenues.
- Among the select consuming states, Bihar was the only state that witnessed increased GST collections as a percentage of its own revenues.

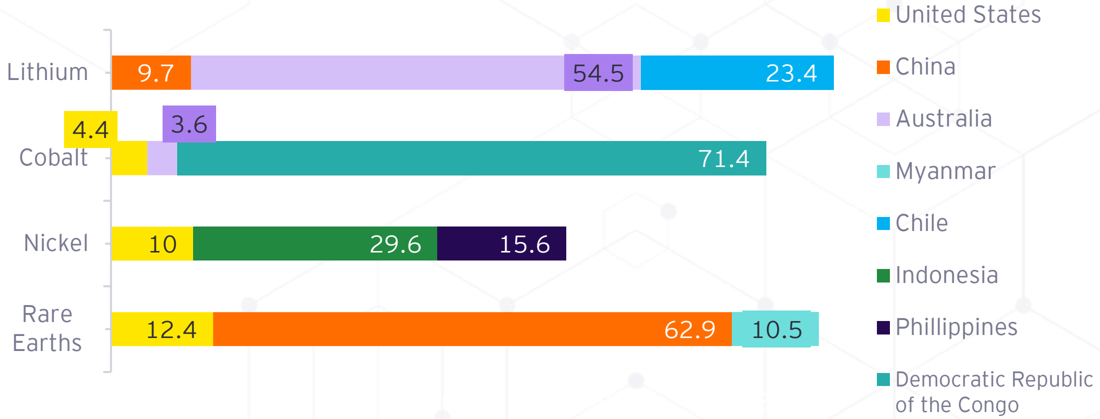
EY

Emerging public policy issue - Access to critical minerals

Estimated growth in demand for selected minerals from clean energy tech to meet Paris Agreement goals; In 2040 relative to 2020



Share of top 3 countries in production of major minerals (%)



Source: IEA

Import dependence for critical minierals in India, 2020

Critical Mineral	Dependence (%)	Major Import Sources (2020)
Lithium	100	Chile, Russia, China, Ireland, Belgium
Cobalt	100	China, Belgium, Netherlands, US, Japan
Nickel	100	Sweden, China, Indonesia, Japan, Philippines
Vanadium	100	Kuwait, Germany, South Africa, Brazil, Thailand
Niobium	100	Brazil, Australia, Canada, South Africa, Indonesia
Germanium	100	China, South Africa, Australia, France, US
Rhenium	100	Russia, UK, Netherlands, South Africa, China
Beryllium	100	Russia, UK, Netherlands, South Africa, China
Tantalum	100	Australia, Indonesia, South Africa, Malaysia, US
Strontium	100	China, US, Russia, Estonia, Slovenia
Zirconium	80	Australia, Indonesia, South Africa, Malaysia, US
Graphite (natural)	60	China, Madagascar, Mozambique, Vietnam, Tanzania
Manganese	50	South Africa, Gabon, Australia, Brazil, China

- As the world moves forward with decarbonization, the vulnerabilities in the supply chains will come to the fore
- Hopefully, some of these challenges would be addressed through technological development and through greater mineral exploration efforts and expenditure
- In India, Khanij Bidesh India Ltd. (KABIL) has been set up with three public sector companies i.e., National Aluminium Company Ltd.(NALCO), Hindustan Copper Ltd.(HCL) and Mineral Exploration Company Ltd. (MECL), to address the issue of sourcing critical minerals

Source: Australia Trade Commission Report

7

Global trade and investments

Global trade: Imports and exports of major trading economies

Goods	Q1 2022 Relative to 2019 Average		Q1 2022 Relative to Q4 2021	
	IMPORTS	EXPORTS	IMPORTS	EXPORTS
Brazil	↑ 30%	↑ 43%	↓ 3%	↑ 15%
China	↑ 35%	↑ 49%	↑ 2%	↑ 4%
India	↑ 37%	↑ 34%	↑ 4%	↑ 7%
Japan	↑ 20%	↑ 8%	↑ 6%	↑ 2%
Republic of Korea	↑ 39%	↑ 29%	↑ 4%	↑ 3%
Russian Federation	↑ 15%	↑ 38%	↓ 6%	↑ 5%
South Africa	↑ 19%	↑ 46%	↑ 8%	↑ 10%
United States	↑ 30%	↑ 17%	↑ 8%	↑ 4%
European Union	↑ 37%	↑ 12%	↑ 7%	↑ 2%

Services	Q1 2022 Relative to 2019 Average		Q1 2022 Relative to Q4 2021	
	IMPORTS	EXPORTS	IMPORTS	EXPORTS
Brazil	↓ 27%	0%	↓ 2%	↓ 1%
China	↓ 8%	↑ 58%	↑ 3%	↑ 9%
India	↑ 16%	↑ 21%	↑ 4%	↑ 4%
Japan	↓ 5%	↓ 19%	↑ 0%	↓ 2%
Republic of Korea	↑ 0%	↑ 26%	↑ 3%	↑ 1%
Russian Federation	↓ 15%	0%	↑ 7%	↑ 9%
South Africa	↓ 15%	0%	↑ 1%	0%
United States	↓ 1%	↓ 8%	↑ 2%	↑ 3%
European Union	↑ 3%	↑ 10%	↓ 2%	↑ 2%

- The import and export trends of some of the world's major trading economies illustrate the patterns of trade growth during Q1 2022.
- Overall, trade in goods in all major economies was well above the pre-pandemic levels of 2019, for both imports and exports. Negative quarter-over-quarter rates reveal that import trends reversed for Brazil and the Russian Federation during Q1 2022.
- Export growth in this period remained strong for Brazil and South Africa.
- In Q4 2021, trade in services of most major economies was still substantially lower than the pre-pandemic averages of 2019. However, trade in services of most major economies continued to recover during Q4 2021, with the exception of Brazil, Japan and the imports to the European Union.

Source: UNCTAD

World trade likely to face uncertainties and undergo a change: UNCTAD

Slower than expected economic growth

Economic growth forecasts for 2022 are being revised downwards due to rising interest rates, inflationary pressures, and negative economic spill-overs from the Russia-Ukraine conflict. Global trade growth may decrease, reflecting these macroeconomic trends

Effect of the conflict in Ukraine

The conflict is putting further pressure on global prices of energy and food commodities. Given the inelastic demand for these products, rising prices may result in higher trade values, and marginally lower trade volumes

Continuing challenges for global supply chains

COVID-19 mitigation measures may continue to create supply disruptions. Moreover, long-term trends to shorten supply chains and to diversify suppliers may begin influencing international trade in the future

Trade agreements and regionalization trends

Inter-regional trade may continue to be negatively affected by rising transport costs, logistic disruptions, and geopolitical frictions. Recent trade agreements will further impact trade trends

Transition toward a greener global economy

Trade patterns are likely to reflect the increasing demand for environmentally sustainable products with near/medium term consequences, depending on the implementation of government policies regulating the trade of carbon-intensive products.

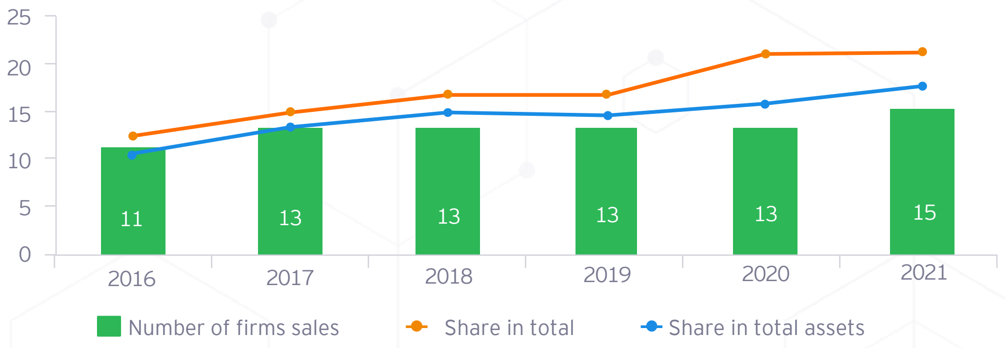
Rising concerns for debt sustainability

Given the record levels of global debt, concerns of debt sustainability are likely to intensify in the coming quarters due to inflationary pressures and interest rate hikes. The pressure on highly indebted governments may negatively affect investments and trade flows

Source: UNCTAD

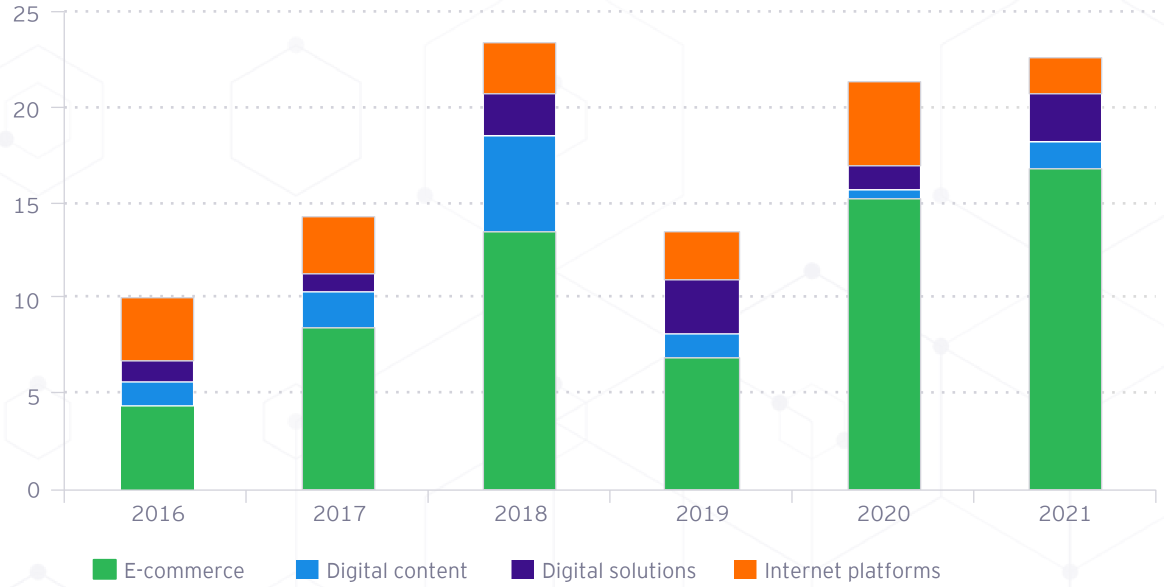
World Investments: internationalization of Tech-MNCs and greenfield investments

Evolution of Tech MNEs in UNCTAD's ranking of top 100 MNEs, 2016-2021 (Number and per cent)



- Tech MNEs have gained increasing weight in UNCTAD's top 100 MNEs ranking in terms of the number of companies and their share in total assets and sales.
- Sales have been growing by 19% annually since 2016, compared to ~4% for the rest of the MNEs in the ranking.
- The pandemic has further accelerated this trend. Tech MNEs' revenues now account for >20% of the ranking's total sales.

Greenfield investment projects of Top 100 digital MNEs, by segment, 2016-2021 (Billions of dollars)



- The pandemic-induced soaring e-commerce activity led to an increase of 120% in greenfield investments in 2020 and a further 10% increase in 2021
- The greenfield investments were mostly in logistics and sales-related projects

Source: UNCTAD

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World Investments: internationalization of Tech-MNCs and greenfield investments

Top 100 digital MNEs greenfield investments projects: geographical distribution by activity (Number and per cent)

Particulars	Logistics and sales	Professional services	R&D	ICT and internet	Other*	Total
Total number of projects	905	520	294	219	227	2165
Developed economies	**69**	**53**	**68**	**60**	**55**	**63**
Europe	56	30	43	42	43	45
North America	9	5	18	4	5	8
Other developed economies	5	18	7	15	7	9
Developing economies	**31**	**47**	**32**	**40**	**45**	**37**
Africa	2	1	2	3	4	2
Asia	19	29	24	26	25	23
China	2	15	2	1	2	5
India	8	2	13	5	2	6
Latin America and the Caribbean	10	17	7	11	16	12
Brazil	4	5	2	5	2	4
Mexico	3	5	1	-	1	2

- More than 60% of the greenfield investment projects are in developed economies, especially in Europe (45%).
- R&D projects concentrate in developed countries, with Canada, the United Kingdom and Spain among the top recipients
- of R&D investment in developing economies, India captures almost half of all projects.
- Professional services are the most geographically spread out, with almost half of such projects flowing to developing countries, especially Asia and Latin America.

Source: UNCTAD

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No.24 Vittal Mallya Road
Bengaluru - 560 001
Tel: + 91 80 6727 5000

Ground Floor, 'A' wing
Divyasree Chambers
11, Langford Gardens
Bengaluru - 560 025
Tel: + 91 80 6727 5000

Chandigarh
Elante offices, Unit No. B-613 & 614
6th Floor, Plot No- 178-178A
Industrial & Business Park, Phase-I
Chandigarh - 160 002
Tel: + 91 172 6717800

Chennai
Tidel Park, 6th & 7th Floor
A Block, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR
Golf View Corporate Tower B
Sector 42, Sector Road
Gurugram - 122 002
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
Gautam Budh Nagar, U.P.
Noida - 201 304
Tel: + 91 120 671 7000

Hyderabad
THE SKYVIEW 10
18th Floor, "SOUTH LOBBY"
Survey No 83/1, Raidurgam
Hyderabad - 500 032
Tel: + 91 40 6736 2000

Jamshedpur
1st Floor, Shantiniketan Building
Holding No. 1, SB Shop Area
Bistupur, Jamshedpur - 831 001
Tel: + 91 657 663 1000

Kochi
9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata
22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: + 91 33 6615 3400

Mumbai
14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

Pune
C-401, 4th floor
Panchshil Tech Park, Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

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