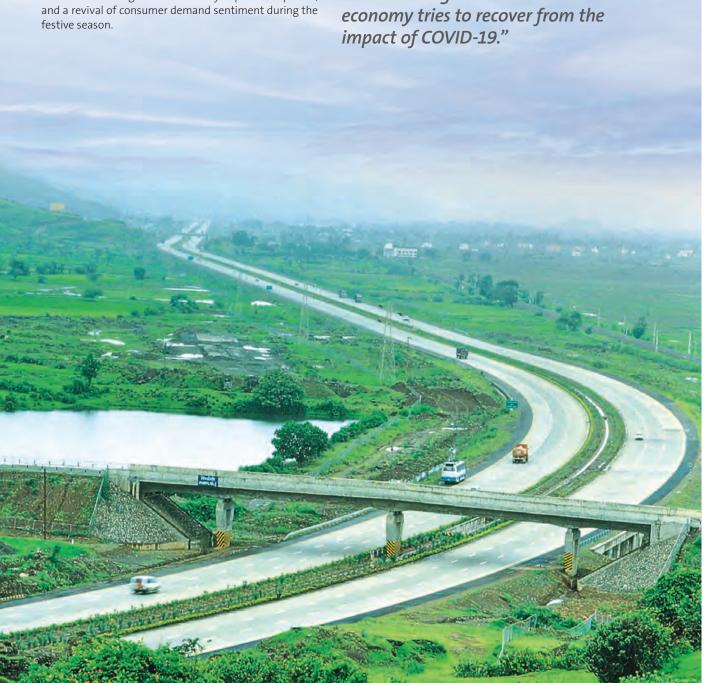
Management Discussion and Analysis

ECONOMIC SCENARIO AND OUTLOOK

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India's economic growth fell from 6.5% in fiscal 2018-19 to 4.0% in fiscal 2019-20, reflecting an 11-year low. Due to the impact of COVID-19, the Gross Domestic Product (**'GDP'**) is expected to contract by 7.7% in fiscal 2020-21, as per the first advance estimates released by the National Statistical Office. While the full impact of the COVID-19 lockdown was felt in the April-June quarter, the worst may have been avoided with a faster than expected recovery of the manufacturing sector in the July-September quarter, and a revival of consumer demand sentiment during the festive season. "The outlook for fiscal 2021-22 is firmly positive with an estimated GDP growth of around 11%. The Union Budget 2021 focuses on continued spending to stimulate growth as the economy tries to recover from the impact of COVID-19."



4% Economic growth in 2019-20

Even as the economy negotiated a temporary recession, it witnessed an uptrend in inflation posing a policy challenge. The nationwide lockdown and supply disruption resulted in overall inflation reaching 7.6% in October 2020. Decline in food prices and high base effect of last year brought the Consumer Price Index-based inflation (**'CPI inflation'**) back within the Reserve Bank of India's (**'RBI's**) target band of 2-6% in December 2020 to a below-consensus rate of 4.6%. The CPI inflation for fiscal 2020-21 is expected to be between 6-7%.

The support package announced by the Government of India (including monetary measures by the RBI in response to the COVID-19 crisis) is estimated at an overall 15% of GDP, with direct spend in the current fiscal at ~2% of GDP. The fiscal deficit of the Central Government is expected to touch 9.5% of GDP in 2020-21, largely due to lower revenues on the back of sharp contraction in economic activity in the first quarter of fiscal 2020. Monetary policy has responded aggressively to the crisis and the repo rates are at a record low of 4%, with a 115 basis point cut in 2020.

The outlook for fiscal 2021-22 is firmly positive with an estimated GDP growth of ~11%. The Union Budget 2021 focuses on continued spending to stimulate growth as the economy tries to recover from the impact of COVID-19. The outlay for capital expenditure for Financial Year 2021-22 has been increased by 26% YoY with a specific emphasis on infrastructure which, in turn, will provide a boost to the employment numbers. While this would stretch the fiscal consolidation path in the near to medium term, the fiscal deficit is budgeted to improve to 6.8% of GDP in 2021-22.

CEMENT INDUSTRY – OUTLOOK AND OPPORTUNITIES

India is the world's second largest cement producer with a cumulative production capacity of 540 Million tonnes per annum (**'MTPA'**) in 2020. The pandemic led to a slowdown and delay in capacity expansion projects.

Cement demand fell by an estimated 10-12% YoY in 2020 owing to the COVID-19 outbreak. Lockdown-led demand disruption was the highest in the second quarter of 2020 on the back of suspension of production, stalled construction activities and mass exodus of labour. However, starting early June, pent-up and pre-monsoon construction requirement cushioned demand de-growth to a large extent. Rural demand continues to be the silver lining for cement consumption while that from the infrastructure sector was in a slower lane. Infrastructure demand witnessed gradual pickup from September onwards on the back of improving government spending, coupled with gradual normalisation in labour availability.

11%

Estimated GDP growth for 2021-22

Rural incomes increased YoY in 2020 led by agricultural profitability and Mahatma Gandhi National Rural Employment Guarantee Act (**'MGNREGA'**) allocations. The highest-ever grant of more than ₹1 Lakh Crore was made under the scheme after earmarking an additional ~₹40,000 Crore to the earlier budget estimate of ₹61,000 Crore.

The outlook for the cement sector in 2021 is robust, with growth estimated at more than 10% YoY over that in 2020. The country's demand revival is likely to be led by the North, East and Central regions. The primary drivers of growth will be infrastructure and affordable housing. Highways and roads, metro rail projects and dedicated freight corridors are expected to see increased levels of activity with sharply higher budgetary allocations in the next year. The continued focus on affordable housing will also ensure healthy demand for cement in the coming year.

