

Economic activity sustains momentum in Nov'20

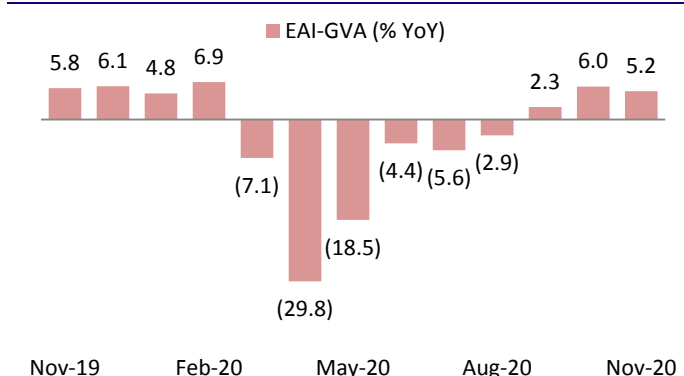
Expect real GDP growth to be between -1% and +1% YoY in 3QFY21

- Our in-house Economic Activity Index (EAI) for India's real GVA (called EAI-GVA) grew for the third consecutive month – albeit slower by 5.2% YoY in Nov'20 – following 6% growth in the previous month. Growth in the farm sector once again surpassed growth in the non-farm sector in Nov'20.
- However, the EAI-GDP index (our in-house measure of official GDP) contracted just 4.2% YoY in Nov'20, following decline of 8.1% in Oct'20. Slower decline was largely attributable to 47% YoY growth in government consumption expenditure (GCE). Excluding GCE, EAI-GDP contracted 5.9% YoY in Nov'20 v/s a fall of 6.6% YoY in Oct'20. Although the fall in personal consumption expenditure (PCE) moderated further to -7.7% YoY in Nov'20, total investments declined 3.9% YoY during the month, faster than decline of just 2.3% YoY in Oct'20.
- Overall, although EAI-GVA moderated in Nov'20, the momentum appears to have sustained. However, based on certain indicators available for Dec'20, such as the PMI indices, e-way registrations, and power generation, the uptick appears to have sustained last month. Accordingly, we believe real GDP growth could be between -1% and +1% YoY in 3QFY21, before higher growth is seen in 4QFY21. In any case, now that the mass rollout of COVID-19 vaccines is imminent, the complete normalization of economic activity is only a matter of time.

Preliminary estimates reveal EAI-GVA grew 5.2% YoY in Nov'20, following higher growth of 6% in the previous month

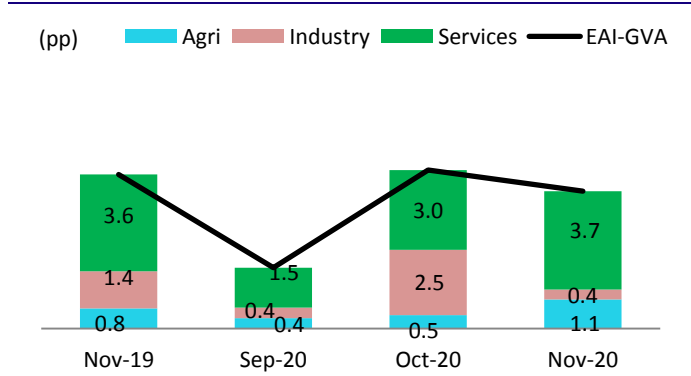
- **EAI-GVA growth weakened slightly in Nov'20...** Preliminary estimates reveal EAI-GVA grew 5.2% YoY in Nov'20, following higher growth of 6% YoY in the previous month (*Exhibit 1*). While the non-farm sector (both industrial and services) grew 5.1% YoY in Nov'20, the farm sector reported three-month high growth of 7.4% during the month (*Exhibit 2*).
- **...while EAI-GDP continued to contract:** EAI-GDP, however, continued to contract in Nov'20 (down 4.2% YoY), following decline of 8.1% in Oct'20. Slower decline was largely attributable to 47% YoY growth in government consumption expenditure (GCE). Excluding GCE, EAI-GDP contracted 5.9% YoY in Nov'20 v/s a fall of 6.6% YoY in Oct'20. Although the fall in personal consumption expenditure (PCE) moderated to -7.7% YoY in Nov'20, total investments declined 3.9% YoY during the month, faster than decline of just 2.3% YoY in Oct'20.

Exhibit 1: India's EAI-GVA moderated in Nov'20...



Please refer to our earlier [report](#) for details

Exhibit 2: ...led by weakness in the industrial sector



Contribution of different components to EAI-GVA growth
Source: Various national sources, CEIC, MOFSL

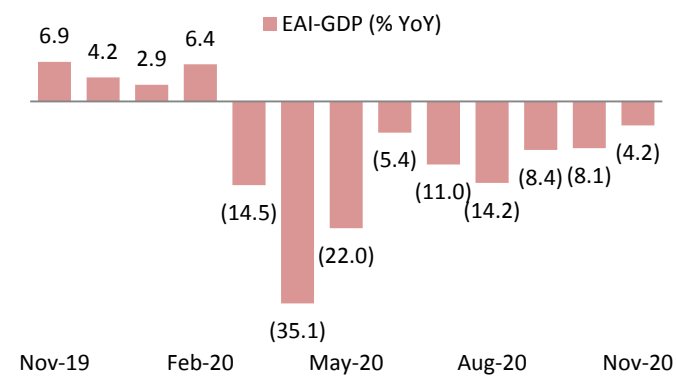
Nikhil Gupta – Research analyst (Nikhil.Gupta@MotilalOswal.com)

Yaswi Agrawal – Research analyst (Yaswi.Agrawal@motilaloswal.com)

Investors are advised to refer through important disclosures made at the last page of the Research Report.

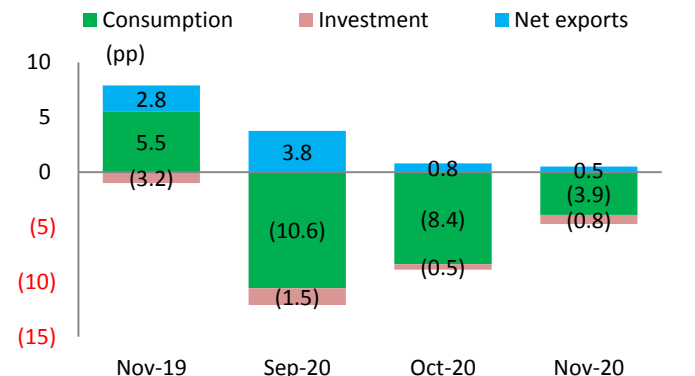
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Exhibit 3: EAI-GDP, however, declined slower in Nov'20...



We have updated our model w.r.t. PCE estimation

Exhibit 4: ...primarily led by government spending

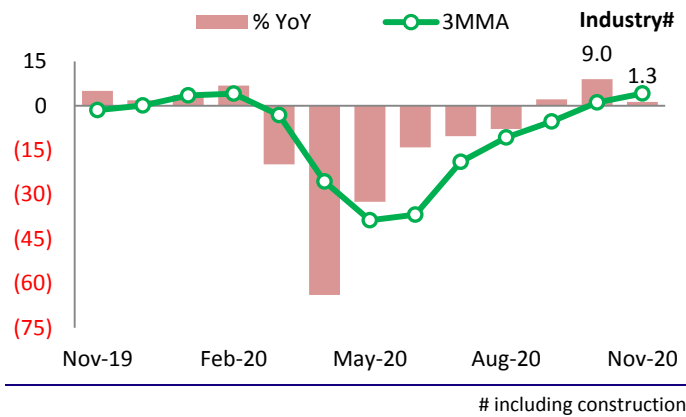
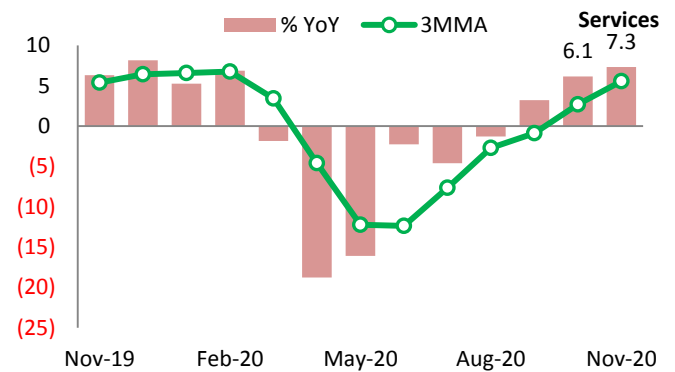
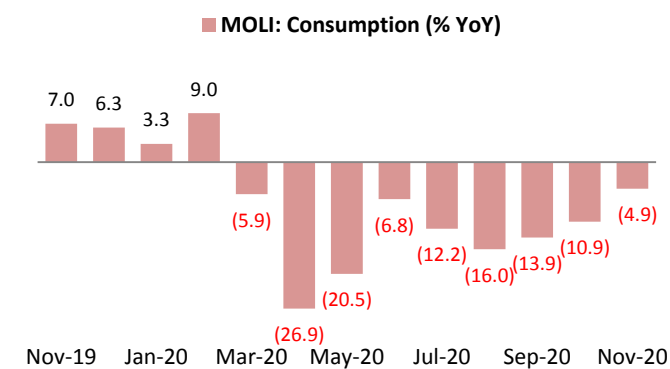
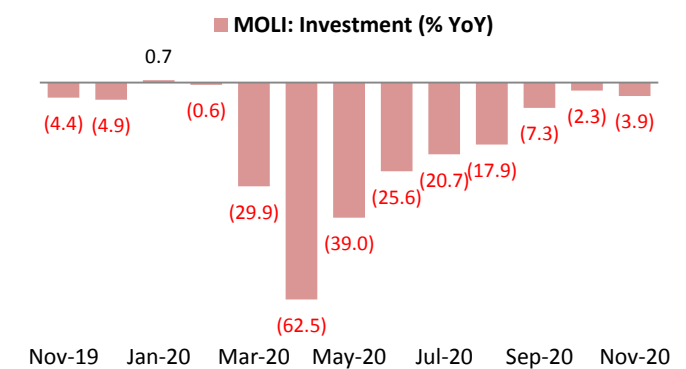
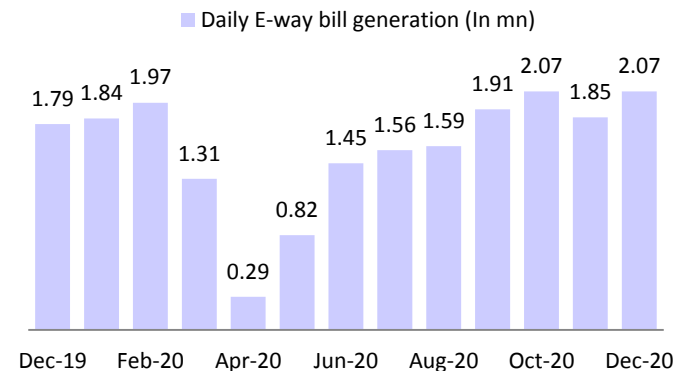
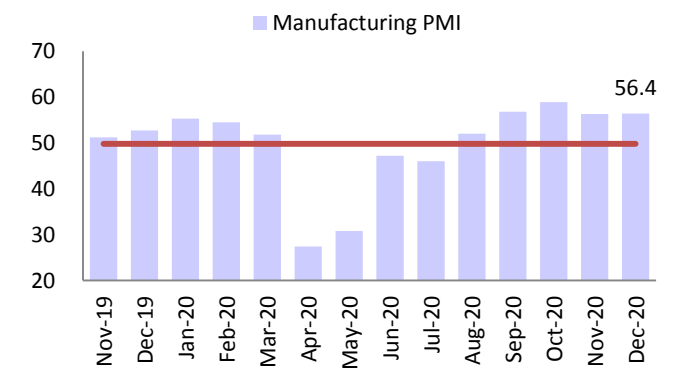
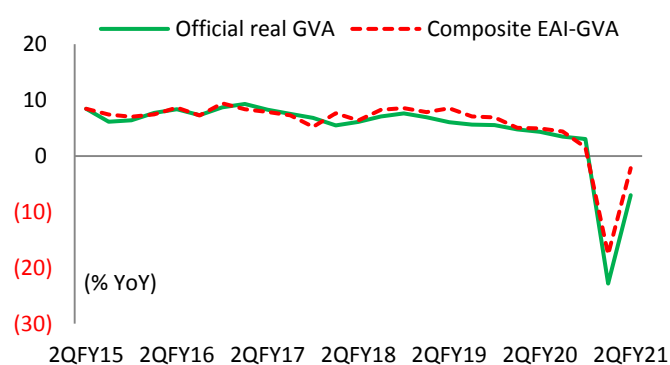


Source: Various national sources, CEIC, MOFSL

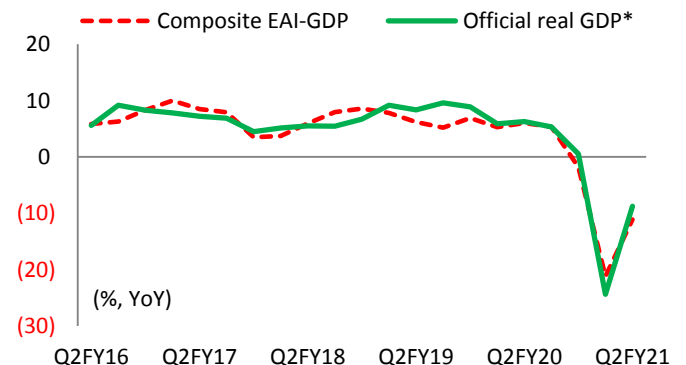
Excluding GCE, EAI-GDP declined 5.9% YoY in Nov'20, still better than 6.6% in Oct'20

We believe that real GDP growth could be between -1% to +1% YoY in 3QFY21, before posting higher growth in 4QFY21.

- Farm sector held EAI-GVA growth:** Details of EAI-GVA suggest the farm sector grew at a three-month high of 7.4% YoY in Nov'20. Conversely, industrial activity grew only 1.3% YoY (v/s 9% in Oct'20), and services activity grew at 11-month highs of 7.3% YoY (v/s 6.1% in Oct'20) (*Exhibits 5, 6*). Factors such as a) weaker growth expectations in the Manufacturing sector, b) a sharp contraction in industrial fuel sales (to -3.7% YoY in Nov'20 from +9.2% in Oct'20), and c) decline in both steel and cement production in Nov'20 resulted in weakness in industrial activity. However, a massive rebound in government spending and a strong financial sector (deposits / trade credit) aided better growth in the services sector (*Exhibit 13 for the heat map*). Therefore, the industrial sector turned out to be the primary cause for slower growth in EAI-GVA in Nov'20.
- Government spending supported total consumption in Nov'20...:** Consumption (personal + government) spending declined 4.9% YoY in Nov'20, marking the first single-digit decline in five months and the slowest in nine months (*Exhibit 7*). While decline in PCE moderated to -7.7% YoY, GCE (revenue spending less interest payments less subsidies) grew a whopping 47% YoY in Nov'20. Faster growth in consumer automobile sales and slower decline in passenger traffic resulted in real PCE declining at its slowest pace in eight months (*Exhibit 14 for the heat map*). Excluding GCE, EAI-GDP actually declined 5.9% YoY in Nov'20, still better than 6.6% in Oct'20.
- ...while investments declined faster:** Investments, on the other hand, shrank 3.9% YoY in Nov'20, faster than 2.3% YoY in the previous month, marking the 17th fall in the past 18 months (*Exhibit 8*). Decline in diesel sales and cement production affected investment activity in Nov'20 (*Exhibit 15 for heat map*).
- Expect 3QFY21 real GDP growth between -1% and +1% YoY:** Overall, although EAI-GVA moderated slightly in Nov'20, the momentum appears to have sustained. However, based on certain indicators available for Dec'20, such as the PMI indices, e-way registrations, and power generation, the uptick appears to have sustained last month. There is no one-to-one correlation between our EAI and the official GDP/GVA due to the **underlying differences**; however, our composite indices are moving in sync with official real GDP (ex-discrepancies) and real GVA estimates (*Exhibits 11, 12*). Accordingly, we believe real GDP growth could be between -1% and +1% YoY in 3QFY21, before higher growth is seen in 4QFY21. In any case, now that the mass rollout of COVID-19 vaccines is imminent, the complete normalization of economic activity is only a matter of time.

Exhibit 5: Industrial activity grew just 1.3% YoY in Nov'20...**Exhibit 6: ...and services growth stood at 11-month highs****Exhibit 7: Consumption posted the slowest fall in nine months...****Exhibit 8: ...while investments declined faster in Nov'20****Exhibit 9: Daily e-way bill generation was at the highest level...****Exhibit 10: ...and the Manufacturing PMI also rose in Dec'20****Exhibit 11: EAI-GVA is moving in line with official real GVA...**

Source: CEIC, Various official sources, MOSL

Exhibit 12: ...and is linked with official real GDP* as well

*Excluding discrepancies

Exhibit 13: Key indicators used in the creation of EAI-GVA on a monthly basis

% YoY	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
Agriculture and allied activities													
IIP: Fertiliser	13.6	10.2	(0.1)	2.9	(11.9)	(4.5)	7.5	4.2	6.9	7.3	(0.3)	6.3	1.6
Domestic tractor sales	(12.8)	4.0	3.3	19.6	(50.2)	(80.1)	0.5	20.2	35.9	64.8	26.7	9.0	48.3
Real rural wages ¹	(4.6)	(6.0)	(5.6)	(4.8)	(4.1)	(1.3)	1.1	2.4	1.9	0.3	(1.2)	(0.9) ⁸	(0.9) ⁸
Reservoir levels	49.4	58.7	65.6	55.5	75.2	65.9	83.1	115.7	71.5	3.6	1.4	(3.6)	(5.2)
Agriculture sector	3.9	6.0	5.8	7.2	(0.1)	(3.4)	7.1	10.8	10.4	10.0	5.3	3.4	7.4
Industrial sector													
Coal	(3.5)	6.1	8.0	11.3	4.0	(15.5)	(14.0)	(15.5)	(5.7)	3.6	21.2	11.7	2.9
Crude oil	(6.0)	(7.4)	(5.3)	(6.4)	(5.5)	(6.4)	(7.1)	(6.0)	(4.9)	(6.3)	(6.0)	(6.2)	(4.9)
Natural gas	(6.4)	(9.2)	(9.0)	(9.6)	(15.1)	(19.9)	(16.8)	(12.0)	(10.2)	(9.5)	(10.6)	(8.6)	(9.3)
IIP: Mining	1.9	5.7	4.4	9.6	(1.3)	(26.9)	(20.4)	(19.5)	(12.7)	(9.0)	1.4	(1.5)	(2.9) ⁸
Mining	0.2	1.7	3.1	5.0	(1.7)	(18.0)	(14.7)	(12.6)	(6.7)	(4.4)	3.0	0.5	(0.7)
Electricity	(4.9)	(0.0)	3.2	11.5	(8.2)	(22.9)	(14.8)	(10.0)	(2.4)	(1.8)	4.8	11.2	3.5
IIP: Manufacturing	3.0	(0.3)	1.8	3.8	(22.8)	(66.6)	(37.8)	(17.0)	(11.4)	(7.9)	(0.2)	3.5	0.2 ⁸
Credit growth ²	1.8	(1.1)	(1.0)	(1.6)	0.3	3.4	5.2	4.1	1.1	0.1	(1.3)	(3.1)	(2.2)
Fuel consumption	7.8	(0.0)	1.8	5.3	(19.1)	(49.6)	(24.1)	(9.8)	(16.8)	(18.8)	(4.0)	9.2	(3.7)
Manufacturing	9.3	2.8	5.2	8.3	(22.3)	(67.9)	(34.9)	(13.2)	(12.9)	(11.5)	1.0	9.7	1.3
Steel production	7.0	8.7	1.6	2.9	(21.9)	(82.8)	(40.4)	(23.2)	(6.5)	0.5	2.8	4.0	(4.4)
Cement output	4.3	5.5	5.1	7.8	(25.1)	(85.2)	(21.4)	(6.8)	(13.5)	(14.5)	(3.5)	3.2	(7.1)
IIP: NMMP ³	1.4	2.1	4.2	9.5	(23.7)	(86.6)	(27.3)	(10.0)	(14.5)	(12.5)	(7.4)	3.3	(0.1) ⁸
IIP: Construction	(0.7)	0.2	(0.3)	2.8	(24.3)	(85.0)	(39.0)	(18.3)	(8.2)	(1.6)	2.5	7.8	0.4 ⁸
Construction	(0.7)	0.2	(0.3)	2.8	(24.3)	(85.0)	(39.0)	(18.3)	(8.2)	(1.6)	2.5	7.8	0.4 ⁸
Industry	5.0	1.9	3.5	6.8	(19.8)	(63.9)	(32.4)	(14.1)	(10.3)	(7.8)	2.2	9.0	1.3
Services sector													
Auto sales [#]	(12.6)	(13.1)	(13.8)	(19.1)	(45.0)	(100.0)	(84.1)	(41.5)	(16.6)	1.2	10.4	13.4	9.7
Trade credit ⁴	4.0	2.9	1.2	4.4	4.2	9.2	9.8	8.1	9.4	12.0	10.0	12.4	13.0
Foreign tourist arrivals	7.9	2.9	0.6	(6.9)	(66.4)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
Freight traffic ⁵	0.5	5.0	2.8	5.7	(10.8)	(30.0)	(22.0)	(10.2)	(7.8)	(1.6)	8.9	9.1	6.7
Passengers traffic ⁵	0.2	(1.3)	(1.7)	4.5	(38.1)	(101.2)	(100.6)	(99.4)	(98.0)	(96.8)	(94.3)	(91.2)	(82.6)
MFs AUMs	11.9	13.0	15.1	15.0	(6.8)	(1.9)	(2.0)	7.0	10.8	7.5	8.2	5.7	9.3
Fiscal Spending ⁶	14.9	54.4	(14.9)	16.1	31.3	42.1	(20.3)	105.0	5.5	(26.2)	(42.9)	(4.5)	86.1
Real deposits ⁷	8.9	6.7	7.3	7.8	7.5	11.7	14.4	11.7	12.4	10.5	9.1	9.5	8.0
Telecom subscribers	(1.5)	(2.1)	(2.2)	(2.0)	(0.5)	(1.2)	(1.6)	(2.2)	(2.1)	(2.0)	(2.2)	(2.7)	(0.5) ⁸
PMI: Services	(1.9)	0.2	6.3	9.5	(5.2)	(89.4)	(74.9)	(32.1)	(36.4)	(20.2)	2.3	10.0	1.9
Services sector	6.3	8.1	5.3	6.9	(1.8)	(18.8)	(16.1)	(2.3)	(4.6)	(1.3)	3.2	6.1	7.3
Aggregates													
EAI-GVA	5.8	6.1	4.8	6.9	(7.1)	(29.8)	(18.5)	(4.4)	(5.6)	(2.9)	2.3	6.0	5.2
Non-farm EAI-GVA	6.1	6.1	4.8	7.0	(7.9)	(32.6)	(21.2)	(6.0)	(6.8)	(3.7)	2.4	6.8	5.1

¹ Rural wages; deflated by CPI for rural workers³ Non-metallic minerals products (NMMP)⁵ Railways and aviation⁷ Bank deposits; deflated by WPI[#] Sale of commercial vehicles within total auto Sales starting Apr'20 has been derived using CV sales of Ashok Leyland, Eicher Motors Ltd., and Mahindra & Mahindra Ltd.; the three account for ~50% of all CV sales² Banks' industrial credit growth; deflated by WPI⁴ Bank's non-food trade credit; deflated by WPI⁶ Total non-interest spending by the central government; deflated by WPI⁸ Our forecasts

	Worse than previous month and a year ago
	Worse than the previous month but better than a year ago
	Better than the previous month but worse than a year ago
	Better than previous month and a year ago

Exhibit 14: Key leading indicators for consumption

% YoY	Passenger traffic ¹	Revenue spending ²	Petrol sales	Rural wages ³	Consumer durable: IIP	Currency	Auto sales ⁴	Imports ⁵	Foreign tourists arrival	Personal credit	Services PMI
Nov-19	0.4	20.9	9.3	(4.6)	1.1	12.8	(13.0)	(4.2)	7.9	16.4	52.7
Dec-19	(1.2)	49.1	3.3	(6.0)	(3.2)	11.9	(14.2)	(5.2)	2.9	15.9	53.3
Jan-20	(1.7)	(8.1)	3.5	(5.6)	(0.6)	11.9	(14.6)	(3.6)	0.6	16.9	55.5
Feb-20	4.6	36.0	11.3	(4.8)	(0.3)	11.5	(18.1)	1.3	(6.9)	17.0	54.5
Mar-20	(38.1)	45.7	(16.4)	(4.1)	(22.3)	14.5	(41.7)	(28.5)	(66.4)	15.0	49.3
Apr-20	(101.1)	50.6	(60.4)	(1.3)	(48.1)	15.7	(100.0)	(47.5)	(100.0)	12.1	5.4
May-20	(100.6)	(32.8)	(35.3)	1.1	(9.7)	18.4	(84.0)	(31.9)	(100.0)	10.6	12.6
Jun-20	(99.2)	98.7	(13.5)	2.4	6.9	20.6	(39.8)	(36.4)	(100.0)	10.5	33.7
Jul-20	(97.7)	24.5	(10.4)	1.9	1.8	22.2	(14.0)	(16.9)	(100.0)	11.2	34.2
Aug-20	(96.4)	(26.9)	(7.5)	0.3	(2.3)	23.2	4.2	(24.5)	(100.0)	10.6	41.8
Sep-20	(93.9)	(43.0)	3.3	(1.2)	2.4	22.7	13.3	(5.2)	(100.0)	9.2	49.8
Oct-20	(90.6)	(19.0)	4.5	(0.9) ⁶	7.5	20.3	16.5	1.0	(100.0)	9.3	54.1
Nov-20	(82.1)	66.9	5.1	(0.9) ⁶	(18.7) ⁶	22.2	12.1	6.5	(100.0)	10.0	53.7

¹ Railways and aviation² Revenue spending less interest payments of the central government³ Real rural wages; deflated by CPI for rural workers⁴ Includes passenger vehicles and two-wheelers⁵ Imports of agricultural items, leather products, newsprint and electronic goods, textiles (excluding gold, silver, precious metals)⁶ Our forecasts**Exhibit 15: Key leading indicators for investment**

% YoY	Cargo traffic ¹	Electricity	Auto sales ^{2,**}	Diesel sales	Capital goods' imports ³	Cement Production	IIP: Non-metallic products	IIP: Capital goods	Industrial credit	Govt capex ⁴	Manufacturing PMI
Nov-19	0.5	(4.9)	(6.8)	9.1	(21.8)	4.3	1.4	(8.9)	2.4	(12.3)	51.2
Dec-19	5.0	(0.0)	0.2	(0.0)	(16.5)	5.5	2.1	(18.3)	1.6	104.4	52.7
Jan-20	2.8	3.2	(3.8)	(1.8)	6.6	5.1	4.2	(4.4)	2.5	(31.8)	55.3
Feb-20	5.7	11.5	(32.1)	6.2	14.1	7.8	9.5	(9.6)	0.7	(15.7)	54.5
Mar-20	(10.8)	(8.2)	(76.8)	(24.2)	(16.5)	(25.1)	(23.7)	(38.8)	0.7	(4.4)	51.8
Apr-20	(30.0)	(22.9)	(97.1)	(55.6)	(54.2)	(85.2)	(86.6)	(92.7)	1.7	(7.5)	27.4
May-20	(22.0)	(14.8)	(86.4)	(29.5)	(33.6)	(21.4)	(27.3)	(65.9)	1.7	57.2	30.8
Jun-20	(10.2)	(10.0)	(67.4)	(15.5)	(42.1)	(6.8)	(10.0)	(37.4)	2.2	116.2	47.2
Jul-20	(7.8)	(2.4)	(55.9)	(19.6)	(37.7)	(13.5)	(14.5)	(22.8)	0.8	(47.1)	46.0
Aug-20	(1.6)	(1.8)	(45.7)	(20.8)	(42.0)	(14.5)	(12.5)	(14.8)	0.5	(20.9)	52.0
Sep-20	8.9	4.8	(34.1)	(5.9)	(29.2)	(3.5)	(7.4)	(1.3)	(0.0)	(38.9)	56.8
Oct-20	9.1	11.2	(33.7)	7.5	(23.8)	3.2	3.3	3.3	(1.7)	129.5	58.9
Nov-20	6.7	2.2	(23.5)	(7.0)	(10.0)	(7.1)	(0.1) ⁵	1.7 ⁵	(0.7)	248.5	56.3

¹ Railways and waterways² Includes commercial vehicles and three-wheelers³ Machinery and equipment, transport equipment, machine tools and project goods⁴ Capital spending of the central government⁵ Our forecasts

** - Data for total CV sales starting Apr'20 derived using CV sales of Ashok Leyland, Eicher Motors Ltd., and Mahindra & Mahindra Ltd.; the three account for ~50% of all CV sales

	Worse than previous month and a year ago
	Worse than the previous month but better than a year ago
	Better than the previous month but worse than a year ago
	Better than previous month and a year ago

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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