

**AT 17.9 CRORE IN AUGUST, VACCINATION IS THE BEST BET FOR GROWTH  
RECOVERY : 70% NEW INVESTMENTS FROM PRIVATE SECTOR**Issue No. 37, FY22  
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India's GDP grew in double digits and stood at 20.1% in Q1 FY22 (SBI estimate: 18.5%). GVA increased by 18.8%. Interestingly, we should look at the seasonally adjusted numbers quarter-on-quarter as is the practice globally. Average contraction in Q1 since FY13 comes to -3.6%. For Q1 FY22, the seasonally adjusted Q-o-Q real growth is -13.6%. In Q1FY21 it was -26.7%.

Agriculture and allied sectors grew by 4.5% in Q1 FY22 as against 3.5% in Q1 FY21 and 3.1% in preceding quarter. This sector remains unscathed from the pandemic and continues to perform well. Industry, which was the worst affected sector during the pandemic, rebounded sharply in Q1 FY22 (grew by 46.6%) due to 49.6% growth in Manufacturing and 68.3% growth in construction. However, much of the growth is due to the low base in Q1 FY21.

Services sector exhibited a YoY growth of 11.4%, however, on Q-o-Q basis the sector has contracted by 11.8%. Though, the growth has seen in 'financing, insurance, real estate & bus Services' but 'trade, hotels, transportation' and 'Public administration and Defence' has contracted significantly on Q-o-Q basis.

On the expenditure side, due to base effects the y-o-y growth in Q1 FY22 private final consumption expenditure has been at a record 19.3%. However, when we look at the Q-o-Q metrics, there is a degrowth of 17.4%. And if we compare with Q1 FY20, the degrowth is 11.9%. Thus, the recovery has not happened as Indian households faced the brunt of second wave in Q1. Another troubling aspect to the consumption story is that the Government Expenditure, which grew by 12.7% in real terms in Q1FY21, has displayed degrowth of 4.8% Y-o-Y and -7.6% Q-o-Q. Government support to consumption expenditure declined despite the second wave. However, its share in GDP remains at an elevated 13%.

Investment demand as gauged by Gross Fixed Capital Formation has shown 55% growth in Q1FY22. But again, base effects are at play and on Q-o-Q basis the degrowth is of 23.6% and 17.1%, if we compare with Q1 FY20. The overall share in GDP has recovered to 31.6% as compared to 24.4% in last year's Q1. **With the almost flat new announcements of around Rs 11 trillion reported in FY21 as compared to Rs 10.8 trillion in FY20, FY22 looks optimistic with around Rs 5.6 lakh crore investment announcements made so far in last five months in FY22 (April-Aug), as per Projects Today. What is pertinent to mention is that around 70% of this i.e. Rs 3.84 lakh crore is coming from private sector and around 30% is from Government.**

At the granular level, small companies with turnover of up to Rs 500 crore, are continuously taking cost cutting measures including cut in wage bill. While analysing results of more than 3700 listed entities, we saw reduction in employee cost by up to 5% in companies with turnover of up to Rs 50 crore as compared to increase in 2-3% for large corporates in Q1FY22 as compared to Q4FY21.

Exports have grown rapidly as global demand has recovered and as commodities have witnessed inflationary pressures. The share has grown to 23.7% in Q1FY22, levels close to FY15. However, volatility remains around commodity prices and any softening can have adverse impact on the share of exports in GDP. Overall net exports are expected to be negative, as imports have also climbed due to improved demand and higher crude oil prices.

**Though it is too early to anticipate the FY22 GDP growth estimate, we still believe that this will be in single-digits in FY22 and in the range of 8.5-9.0%. The best thing, however, is that for 2 days in August, vaccination has topped 1 crore including 31 Aug.**

Overall the story is in Q1 FY21, the country exhibited real GDP loss of Rs 8.7 lakh crore (on y-o-y basis) due to nation-wide lockdown. In Q1 FY22, the gain was around Rs 5.4 lakh crore. This indicates that loss of Rs 3.3 lakh crore still needs to be recouped to reach the pre-pandemic level.

## GDP GREW BY 20.1% IN Q1 FY22

- As expected, India's GDP grew in double digits and stood at 20.1% in Q1 FY22 (SBI estimate: 18.5%). The real GVA increased by 18.8%.
- Agriculture:** Agriculture and allied sectors grew by 4.5% in Q1 FY22 as against 3.5% in Q1 FY21 and 3.1% in preceding quarter. This sector remains unscathed from the pandemic and is growing strong.
- Industry:** Industry was the worst affected sector during the pandemic and rebound sharply in Q1 FY22 (grew by 46.6%) due to 49.6% growth in Manufacturing and 68.3% growth in construction. However, much of the growth is due to the huge low base in Q1 FY21.
- Services:** Services sector has exhibited a YoY growth of 11.4%, however, on QoQ basis the sector has contracted by 11.8%. Though, growth has been seen in 'Financing, Insurance, Real Estate & Bus Services' but 'Trade, Hotels, Transportation' and 'Public Administration and Defence' has contracted significantly on QoQ basis.
- The net taxes, the gap between GDP and GVA at constant prices have reduced significantly in Q1 FY22 to Rs 1.9 lakh crore. Interestingly, this is probably the first time in past few quarters that both the calculated net indirect taxes (from CGA) and NSO computed net indirect taxes are almost same. This is probably due to movement of off-balance sheet amount to budgeted numbers.
- In the last 2-quarters (Q4FY21 & Q1FY22), the WPI inflation is higher than the CPI inflation due to the sharp rise in fuel and non-food commodity prices. As NSO extensively use WPI for deflating nominal price estimates to derive real price estimates, we have mapped GDP & GVA deflator with the WPI numbers. The inflation measured in terms of GVA and GDP deflators clocked a pick-up from Q1FY21 and continues to rise, broadly in alignment with WPI inflation.
- In Q1FY22, the y-o-y GDP deflator has increased for all the sectors due to the indicating base effect.

## GDP: EXPENDITURE SIDE

- On the expenditure side, due to base effects the y-o-y growth in Q1 FY22 private final consumption expenditure has been at a record 19.3%. However, when we look at the q-o-q metrics, there is a degrowth of 17.4%. And if we compare with Q1 FY20, the degrowth is 11.9%. Thus, the recovery has not happened as Indian households faced the brunt of second wave in Q1.

GVA at Basic Price by Economic Activity (%)					
Sectors	FY21				FY22
	Q1	Q2	Q3	Q4	Q1
Agriculture	3.5	3.0	4.5	3.1	4.5
Industry	-35.8	-3.0	2.9	7.9	46.1
Mining & quarrying	-17.2	-6.5	-4.4	-5.7	18.6
Manufacturing	-36.0	-1.5	1.7	6.9	49.6
Electricity, gas, water supply & other utility services	-9.9	2.3	7.3	9.1	14.3
Construction	-49.5	-7.2	6.5	14.5	68.3
Services	-21.5	-11.4	-1.2	1.5	11.4
Trade, hotels, transport, communication & services related to broadcasting	-48.1	-16.1	-7.9	-2.3	34.3
Financial, real estate & professional service	-5.0	-9.1	6.7	5.4	3.7
Public administration, defence and Other Services	-10.2	-9.2	-2.2	2.3	5.8
Total GVA at Basic Price	-22.4	-7.3	1.0	3.7	18.8
GDP	-24.4	-7.4	0.5	1.6	20.1

Source: NSO, SBI Research

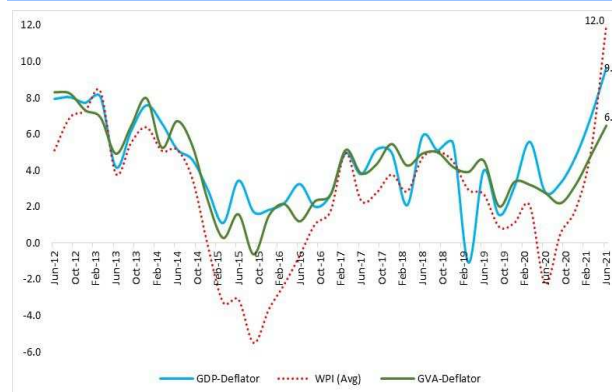
Net Indirect Taxes (Calculated vis-à-vis NSO)				
in Rs Lakh crore	Indirect Tax from CGA	Major subsidies from CGA	Calculated Net indirect tax	NSO Net indirect tax
Q1FY19	2.4	1.2	1.2	2.4
Q2FY19	2.2	0.7	1.5	2.8
Q3FY19	2.2	0.6	1.7	3.0
Q4FY19	2.6	-0.5	3.0	4.5
Q1FY20	2.3	1.5	0.8	2.6
Q2FY20	2.2	0.6	1.6	2.9
Q3FY20	2.3	0.4	1.9	3.0
Q4FY20	2.7	-0.3	3.0	4.4
Q1FY21	1.5	-1.4	2.9	1.3
Q2FY21	2.5	0.8	1.7	2.6
Q3FY21	3.2	0.7	2.5	2.8
Q4FY21	3.6	4.6	-1.0	3.8
Q1FY22	2.8	1.0	1.8	1.9

Source: CGA; NSO; SBI Research

Growth in Sectoral Deflator (%)					
Sectors	FY20				FY21
	Q1	Q2	Q3	Q4	Q1
Agriculture	2.0	4.1	3.3	2.0	6.3
Industry	-3.6	-1.3	1.9	6.4	13.5
Mining & quarrying	-23.7	-12.1	-12.0	3.3	40.3
Manufacturing	-0.4	0.9	2.9	5.9	10.7
Electricity, gas, water supply & other utility services	-2.3	-6.1	0.2	0.6	2.5
Construction	-4.3	-1.8	3.0	9.0	17.6
Services	3.2	3.1	3.6	5.3	5.6
Trade, hotels, transport, communication & services related to broadcasting	0.6	2.7	3.2	5.0	7.0
Financial, real estate & professional service	-0.2	1.6	3.0	5.7	6.7
Public administration, defence and Other Services	6.9	5.2	4.7	5.0	4.7
Total GVA at Basic Price	2.8	2.2	3.2	4.9	6.5
GDP	2.8	3.3	4.8	7.0	9.6

Source: NSO, SBI Research

## GVA & GDP Deflator continue to rise in line with WPI



Source: SBI Research

- ◆ In % share terms, the PFCE stood at 55.1% of GDP while this ratio was 55.4% in Q1FY21. As households continue to curtail unnecessary expenditure and not provide a push for consumption expenditure, the overall PFCE share in GDP has been declining from 57.1% in FY20 to 56% in FY21 to 55.1% in Q1FY22. If we assume that households manage to regain their purchasing power and maintain their share of 57% in FY22 GDP, then the PFCE growth is expected to clock in at 11% annual growth. **But the most likely scenario if we compare such with FY20 PFCE then the growth is barely positive at 0.9%. Thus, household recovery is still on fragile footing.**
- ◆ Another troubling aspect to the consumption story is that the Government Expenditure, which grew by 12.7% in real terms in Q1FY21, has displayed degrowth of 4.8% y-o-y and -7.6% q-o-q. Government support to consumption expenditure declined despite the second wave. However, its share in GDP remains at an elevated 13%.
- ◆ The other most important sector, Gross fixed capital formation has shown 55% growth in Q1FY22. But again, base effects are at play and on q-o-q basis the degrowth is of 23.6% and 17.1%, if we compare with Q1 FY20. The overall share in GDP has recovered to 31.6% as compared to 24.4% in last year's Q1.
- ◆ Exports have grown rapidly as global demand recovered and as commodities have witnessed inflationary pressures. Their share has grown to 23.7% in Q1FY22, levels last seen in FY15. However, volatility remains around commodity prices and any softening can have adverse impact on the share of exports in GDP. Overall net exports are expected to be negative, as imports have also climbed due to improved demand and higher crude oil prices.
- ◆ Valuables have fallen rapidly in Q1 FY22 as expected due to the second covid wave, as they cover Net imports of valuables mainly covering gold and silver, and gems and jewellery available from DGCIS and Growth in relevant IIP.

### NOMINAL AND REAL LOSS

- ◆ In Q1 FY21, the country exhibited real GDP loss of Rs 8.7 lakh crore (on y-o-y basis) due to nation-wide lockdown. In Q1 FY22, the gain was around Rs 5.4 lakh crore. This indicates that loss of Rs 3.3 lakh crore still needs to be recoup to reach the pre-pandemic level. Sector-wise data indicates that 'Trade, Hotels, Transport, Communication & Services related to Broadcasting' is the most affected sector and the loss of Rs 2.0 lakh crore is still needed to recoup in this sector. Even in nominal terms while loss in almost all sectors recouped (except construction), the loss in aforesaid sector is still large and needs to recoup.

GDP by Expenditure Side(YoY %)					
Levels at Constant Price	FY20				FY21
	Q1	Q2	Q3	Q4	Q1
Total final consumption expenditure	-19.9	-13.4	-2.6	6.4	13.8
Private final consumption expenditure	-26.2	-11.2	-2.8	2.7	19.3
Government final consumption expenditure	12.7	-23.5	-1.0	28.3	-4.8
Gross fixed capital formation	-46.6	-8.6	2.6	10.9	55.3
Change in Stocks	-32.8	3.3	6.7	12.2	45.9
Valuables	-93.0	-4.5	10.7	107.2	456.1
Exports	-21.8	-2.0	-3.5	8.8	39.1
Less Imports	-40.9	-17.9	-5.0	12.3	60.2
Discrepancies	918.0	89.4	-42.9	-130	-53.3
<b>GDP At Market Price</b>	<b>-24.4</b>	<b>-7.4</b>	<b>0.5</b>	<b>1.6</b>	<b>20.1</b>

Source: CSO, SBI Research

### SEASONALLY ADJUSTED REAL GDP

- ◆ In q-o-q terms, real GDP always contracts in Q1. The average contraction in Q1 since FY13 comes to -3.6%, the contraction however declined till Q1 FY18. But it has again started increasing since Q1 FY19.
- ◆ We have compared the seasonally adjusted series with unadjusted of Real GDP q-o-q growth since FY18. The result shows that the seasonally adjusted GDP growth is higher than the non-seasonally adjusted GDP growth for Q1 and Q2 every financial year. But, if we take the average q-o-q growth, seasonally adjusted figures are lower than the real growth figures since FY19.

GDP growth qoq (%)					
Quarter	Real GDP	Real GDP sa	Quarter	Real GDP	Real GDP sa
Q1FY18	-2.5	2.0	Q1FY20	-4.2	-0.3
Q2FY18	1.6	2.6	Q2FY20	-0.1	0.7
Q3FY18	2.7	0.7	Q3FY20	1.3	-0.5
Q4FY18	7.0	3.6	Q4FY20	6.3	3.1
Q1FY19	-3.8	0.4	Q1FY21	-29.7	-26.7
Q2FY19	0.6	1.5	Q2FY21	22.3	23.2
Q3FY19	2.6	0.7	Q3FY21	9.9	7.8
Q4FY19	6.5	3.3	Q4FY21	7.5	4.4
			Q1FY22	-16.9	-13.6

Source: MOSPI, SBI Research

Y-o-Y Real & Nominal Loss/Gain (Rs crore)						
Sector	Constant Prices			Current Prices		
	Q1		Loss need to Recoup	Q1		Loss need to Recoup
	FY21	FY22		FY21	FY22	
1. Agriculture, forestry & fishing	15890	21012	-	41926	87913	-
2.1 mining & quarrying	-14234	12764	-1470	-34585	39484	-
2.2 Manufacturing	-204068	180373	-23695	-246227	284752	-
2.3 Electricity, gas, water supply & other utility services	-7854	10242	-	-14905	18863	-
2.4 Construction	-128660	89817	-38843	-181347	166207	-15140
3.1. Trade, hotels, transport, communication & services related to broadcasting	-319212	118426	-200786	-406905	194678	-212227
3.2. Financing, insurance, real estate & bus. Services	-40450	28138	-12312	-56301	108076	-
3.3. Public administration, defence and Other Services	-40775	20832	-19943	-26150	67255	-
Total GVA at Basic Price	-739364	481607	-257757	-924495	967227	-
GDP	-871287	542607	-328680	-1115385	1233553	-

Source: NSO, SBI Research

**NOT ALL IS BEAUTIFUL AT SMALL COMPANIES**

- Small companies with turnover of up to Rs 500 crore, are continuously taking cost cutting measures including cut in wage bill. While analysing results of more than 3700 listed entities, we saw reduction in employee cost by up to 5% in companies with turnover of up to Rs 50 crore as compared to increase in 2-3% for large corporates in Q1FY22 as compared to Q4FY21.
- Overall, around 9% de-growth in revenue and around 2% growth in employee cost has been reported in Q1FY22 as compared to previous quarter i.e. Q4FY22.

**INVESTMENT SCENARIO LOOKS OPTIMISTIC**

- With the almost flat new announcements of around Rs 11 trillion reported in FY21 as compared to Rs 10.8 trillion in FY20, FY22 looks optimistic with around Rs 5.6 lakh crore investment announcements made so far in last five months in FY22 (April-Aug), as per Projects Today. What is pertinent to mention is that around 70% of this i.e. Rs 3.84 lakh crore is coming from private sector and around 30% is from Government.
- A rebound in the announcement of new infra projects by both the Central and State Government agencies has helped the infrastructure sector maintain its steady growth observed since Q2FY21. New project announcements scaled a new high in July'21. In the month 988 projects worth Rs 1.45 lakh crore were announced. The last instance where total number of new projects announced crossed 900 mark was way back in January 2019 when 926 projects announcements were seen.
- Major sectors which reported fresh project announcement include Basic Chemicals, Iron & Steel, Plastic and Plastic products, Electronics, Automobiles, Non-Conventional Energy, Roadways, Real Estate etc.
- Tender issuances worth Rs 2.97 lakh crore were seen in FY22YTD from sectors such as Coal, Hospitals, Water Sewage Pipeline & distribution, Roadways, Railways etc. Table showing major sector where tender issuances were seen is given alongside.

**FY22 REAL GDP PROJECTION**

- Though it is too early to anticipate the FY22 GDP growth estimate, we still believe that this will be in single-digit and in the range of 8.5-9.0%. Regarding RBI's estimate of 9.5% for FY22 (based on 21.4% Q1 growth estimate), it now comes down to 9.3% (with 20.1% growth).

Growth in revenue and employee expenses of listed entities Q1FY22 vis-à-vis Q4FY21 (size wise)			
Turnover	No of Companies	Revenue	Employee expenses
up to Rs 50 crore	2258	-13.6%	-5.0%
above Rs 50 crore to Rs 100 crore	339	-10.4%	-1.3%
above Rs 100 crore to Rs 250 crore	380	-13.9%	-1.0%
above Rs 250 crore to Rs 500 crore	244	-10.1%	-1.0%
above Rs 500 crore to Rs 1000 crore	206	-13.3%	3.4%
above Rs 1000 crore	274	-7.9%	2.3%

Source: Cline; SBI Research

Tenders issuances in FY22 YTD (April-Aug'21)		
Sectors	Tender	Amount Rs Crore
Coal	32	12,962
Electricity & Non Conventional	340	6,830
Hospitals	666	21,058
Tourism & Recreation	252	2,791
Water & Sewerage Pipeline & Distribution	3,004	27,891
Roadways	4,176	90,288
Railways	678	24,232
Power Distribution	809	8,179
Communication Services	75	29,856
Real Estate	632	8,544
Storage & Distribution	201	1,308
Irrigation	623	16,347
<b>All Sectors</b>	<b>15,502</b>	<b>2,97,336</b>

Source: SBI Research; Projects Today

FY22 Real GDP Projections		
	SBI	RBI
<b>Q1</b>	<b>20.1</b>	<b>20.1</b>
Q2 P	7.0-7.5	7.3
Q3 P	6.0-6.5	6.3
Q4 P	6.0-6.5	6.1
<b>Annual (P)</b>	<b>8.5-9.0</b>	<b>9.3 (Calculated)</b>

Source: RBI; SBI Research

#### NO RATE CHANGE THIS YEAR

- ◆ Fed chairman has reiterated the possible reduction of its asset purchase program by the end of this year in the recently concluded Jackson Hole address. However, he has also stated that it does not mean increase in the interest rate as high inflation is considered to be transitory in nature and responding to that might do more harm than good. He also emphasised that labour market is improving with steady increase in job gains, however the Fed will continue to support the economy till substantial progress is made.
- ◆ Since the Fed has already given its signal of staring tapering its QE by year-end, the markets are prepared for it. Certain amount of capital flight is imminent from the emerging markets including India. However, RBI has accumulated enough foreign exchange reserves. Also, increased retail participation in the stock market will provide the necessary support.
- ◆ Furthermore, the number of cases has again started rising in India, with 7 days moving average above 42,000. Though the infection currently seems concentrated with more than 60% cases coming from Kerala, the risk of third wave with the surge in cases nationwide still remains. Meanwhile, 64.05 crore doses of vaccination have been given so far, with 16% of adult population fully vaccinated and 53% receiving single dose. Moreover, CPI inflation which is above the RBI's target has eased moderately to 5.6% in Jul'21 and is considered temporary. Thus RBI might not increase its key rate this year.

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