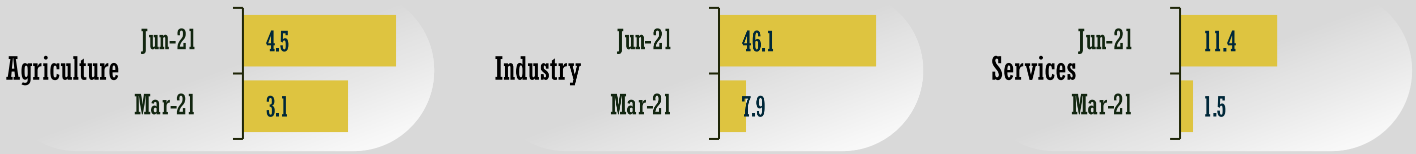
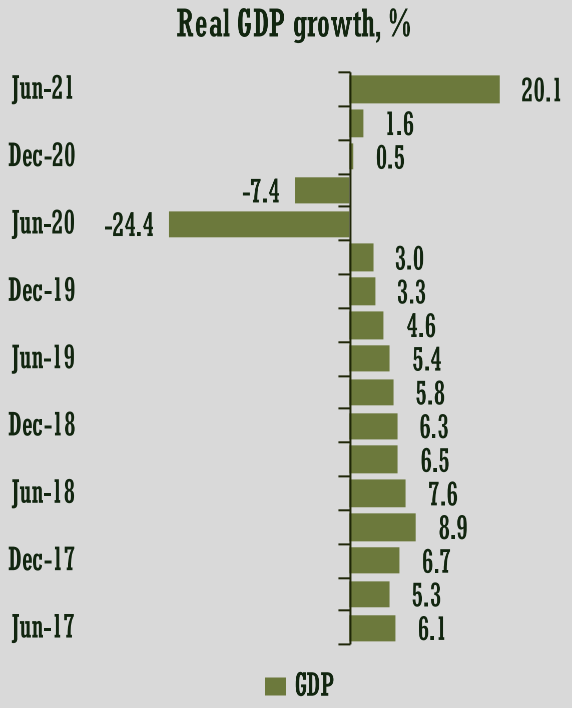
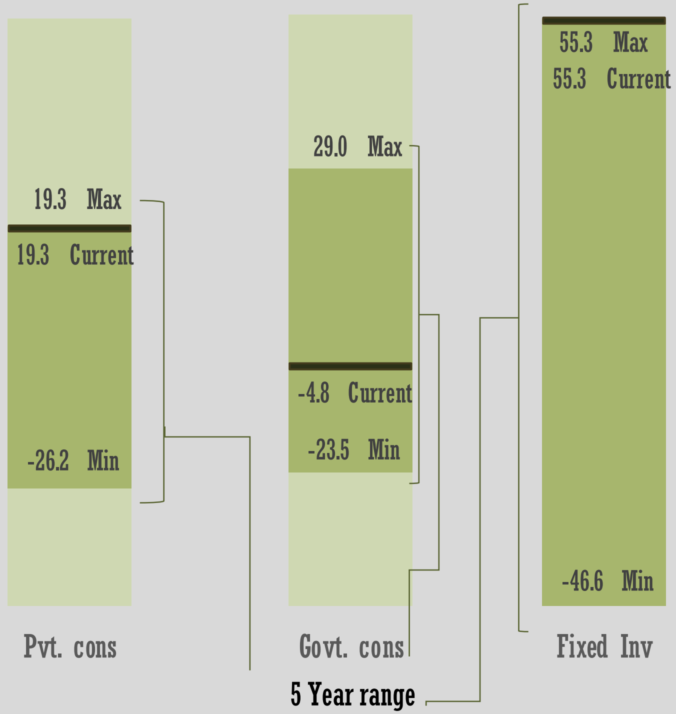
India GDP, Q1 FY22: The fastest growing major economy

GDP	Q1 FY22:	20.1%
GVA	Q1 FY22:	18.8%







Source: Central Statistical Office (CSO), Government of India.

Sujan Hajra, Chief Economist

With 20.1% growth, India becomes the fastest growing major economy of the world, a position the country is expected to maintain in FY22 and FY23. Investment, particularly the construction part, has been the major driver. Foreign demand also helped. Consumption and services showed relative weaknesses.

GDP growth, ahead of expectation. At 20.1%, GDP growth in Q1 FY22 was slightly ahead of consensus expectation. While the depressed base was a major factor, growth came despite the disruption due to the impact of the second wave.

Capex recovery looks likely. The improvement in investment rekindles the hope of a sustained capex recovery. The construction part of capex is doing particularly well.

Relatively depressed consumption. Yet, with the onset of the festival and marriage season, a rebound of private spending in Q2/Q3 looks likely.

Services remain the weak link. Lockdown restrictions are keeping services depressed. Some niches may take long to bounce back to pre-pandemic levels.

India, the fastest growing major country in Jun'21. With 9.5% growth in FY22 and 8.5% in FY23 (IMF estimate) India would continue in a leading position.

Strong link between GDP and earnings, equity returns. Long-term correlation shows alignment between the economy, corporate earnings and equity returns.

GDP growth Investment outpacing consumption

All parts of investment up

Consumption relatively down

Strong export demand

Import grew ahead of export

Jump in valuables (gold)

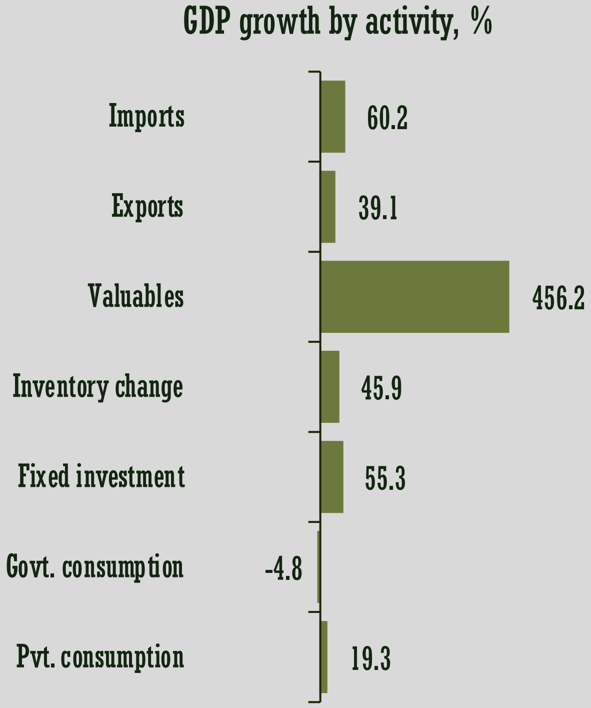
On a depressed base, most components of GDP bounced back strongly in Jun'21. Investment is doing much better than consumption and external demand better than domestic.

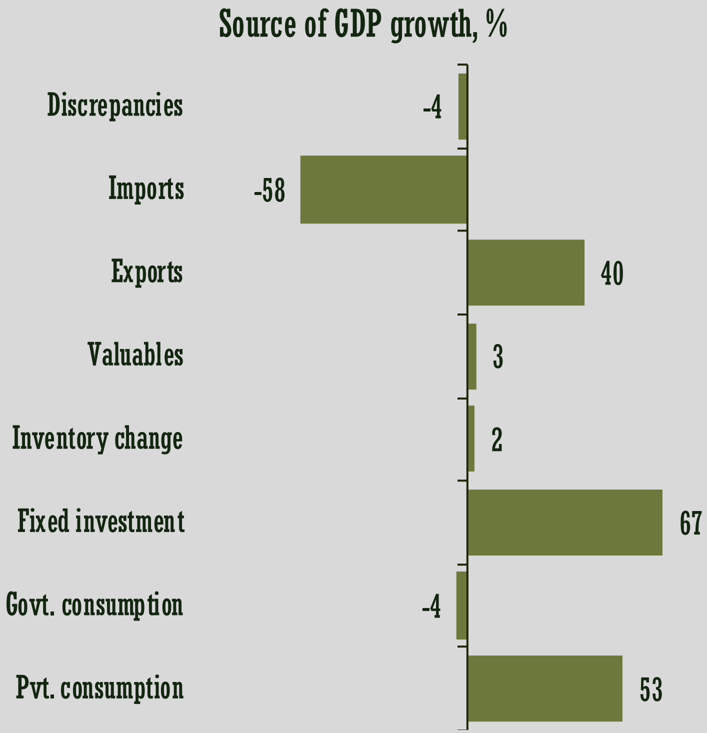
Strong broad-based growth. Except for a contraction in government consumption, all other demand-side components of GDP recorded strong growth in Jun'21.

Record acceleration in investment. All components of investment registered very high growth. The major jump in fixed investment is particularly remarkable. This component contributed two-thirds of the overall GDP growth during the quarter.

Consumption less promising. Despite 19.3% growth, private consumption was a relative laggard due to the second wave.

Buoyant external sector. Compared to domestic consumption demand, external demand was stronger.





Source: Central Statistical Office (CSO), Government of India.

GVA growth Services sector underperforming

Construction, fastest growth

Strong manufacturing growth

Financials show weakness

Base effect for admin

Agriculture resilient

While the national lockdown in 2020 impacted industry hard, the rebound in Jun'21 has been remarkable. Services continue to face headwinds. Agriculture is resilient.

Industry rebounds strongly. Despite the second wave, industry registered an impressive performance, with manufacturing clocking close to 50% growth. Construction has been the fastest growing segment for GVA.

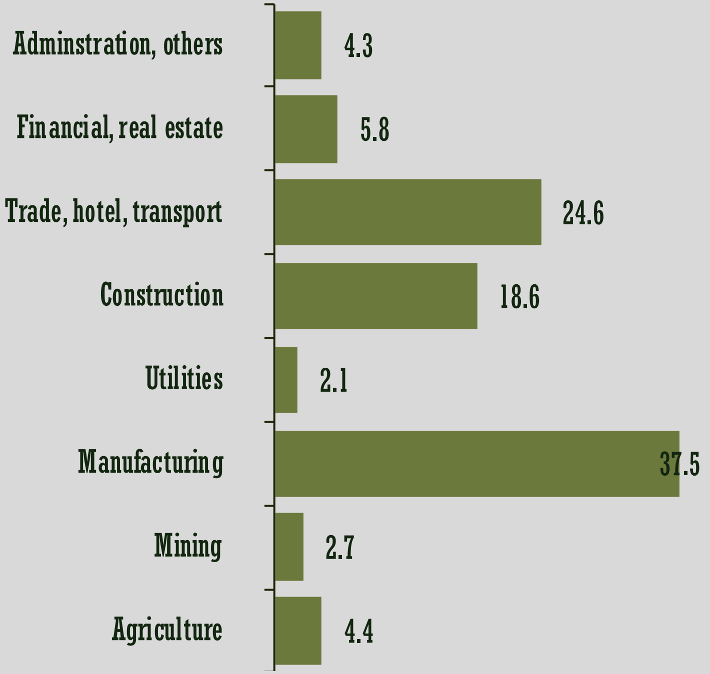
Underperformance of services. Barring trade, hotel, transport and communication, other components of services recoded low to mid-single-digit growth rates, which, in the present circumstance, is disappointing.

Second wave impacted services more. The social distancing norms and restrictions on personal mobility impacted services.

Agriculture resilient. This sector was least impacted by the pandemic.

GVA growth by activity, %

Source of GVA growth, %



Source: Central Statistical Office (CSO), Government of India.

Private consumption Modest bounce-back, but still trailing investment

19.3% Growth

55.1% Share in GDP

55.7% Share in GDP, 5-yr avg.

53% Contr. to GDP growth

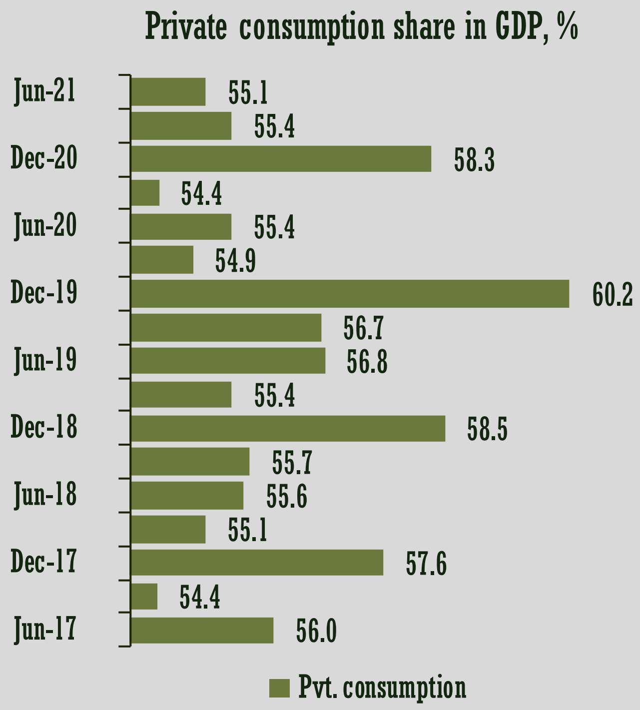
62% Contr. to GDP growth, 5-yr avg.

Consumption remained the weak link in Q1 FY22 in relative terms despite a bounce-back due to the depressed base. With the festival and marriage season, this should improve in Q2/ Q3

Record high but relatively low growth. At 19.3%, private consumption growth is at a record high, but, in relative terms, trailing investment by a wide margin.

Second-wave impact. The second wave of infections led to the re-imposition of lockdown restrictions but this time in a decentralised and less stringent manner. This seems to have impacted consumption more than capex.

Loss of share in GDP. The pent-up demand after the national lockdown in 2020 and the depressed investment environment led to a jump in the share of consumption in Q3 FY21. That, however, has corrected. With the festival and marriage season, some revival is likely in Q2 and Q3.



Source: Central Statistical Office (CSO), Government of India.

Fixed investment Brightens prospects of capex recovery

55.3% Growth

31.6% Share in GDP

31.6% Share in GDP, 5-yr avg.

67% Contr. to GDP growth

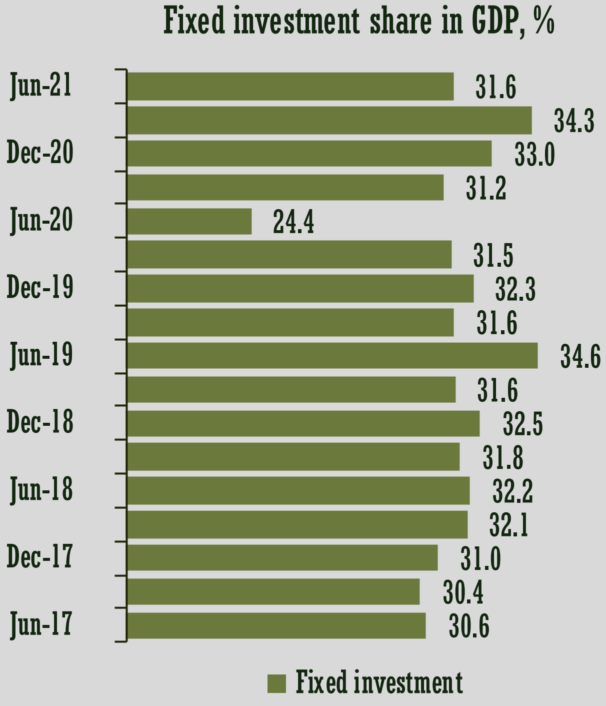
39% Contr. to GDP growth, 5-yr avg.

A large part of the capex recovery is low-base induced. Yet, the rebound despite the second wave is remarkable and likely to persist and gather momentum.

Record jump in investment. A major reason for the rebound in investment has been the depressed base of last year. Yet, the extent of the rebound despite the second-wave impact cannot be ignored.

Hope of capex recovery rekindled. There are broad-based expectations of a capex recovery. The investment data rekindles such hope.

Construction seems to be driving investment. Construction accounts for more than half of fixed investment. A near 70% jump in construction (in GVA) in Q1 FY22 seems to suggest that this component has been the main driver of investment. We expect the capex recovery to persist and gather momentum.



Source: Central Statistical Office (CSO), Government of India.

Government consumption Fiscal policy accommodation likely to continue

-4.8% Growth

13.0% Share in GDP

10.5% Share in GDP, 5-yr avg.

-4% Contr. to GDP growth

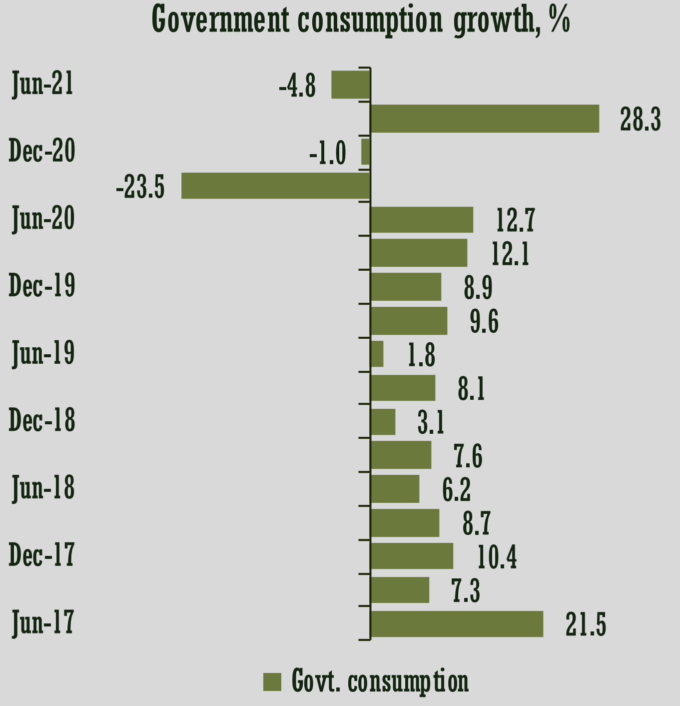
13% Contr. to GDP growth, 5-yr avg.

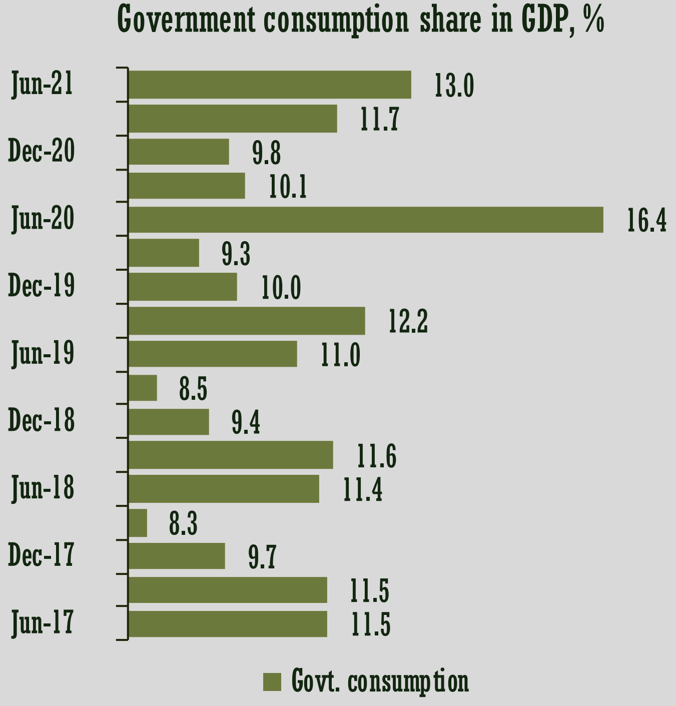
The contraction in government consumption in Q1 FY22 is due to the very high base. While modest deceleration is likely, reversal of fiscal accommodation remains unlikely.

Counter-cyclical government consumption. The contraction in government consumption in Q1 FY22 is also due to the record high growth in Q1 FY21 at the start of the pandemic.

No indication of reversal of fiscal accommodation. We do not reckon that the contraction in government consumption in any way indicates reversal of fiscal accommodation. The contribution of the component in GDP growth in Q1 FY22 has been the highest in any recent quarter, barring Q1 FY21. The contribution has been increasing for the last four quarters.

Modest deceleration likely. Government consumption is counter-cyclical. With stronger GDP growth, modest deceleration is likely.





Source: Central Statistical Office (CSO), Government of India.

Foreign trade Strong external demand driving exports

23.7% Share in GDP export

20.1% Share in GDP, 5-yr avg. export

25.7% Share in GDP import

22.8% Share in GDP, 5-yr avg. import

-1.9% Net export to GDP

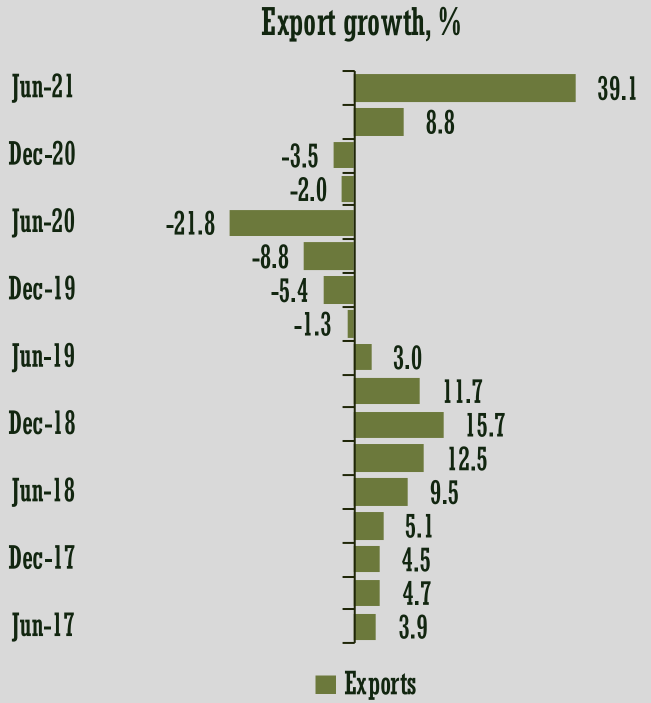
Stronger import vs. export growth is due to the depressed base of the former and revival of oil imports. External demand growing faster than domestic consumption.

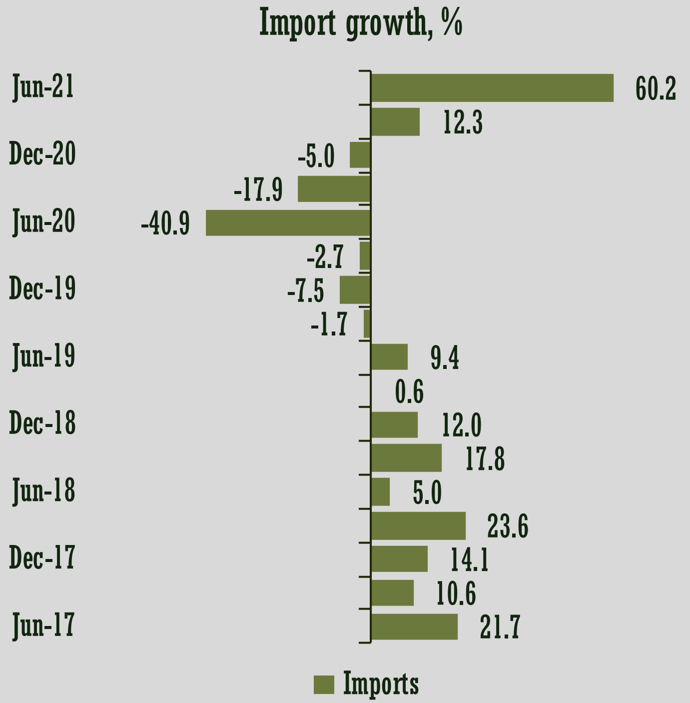
Import growth significantly ahead of exports. This was expected due to much stronger contraction in imports versus exports in the same quarter last year.

Oil imports playing a big role. Both the price and quantum of oil imports in Q1 FY22 have been much higher than in Q1 FY21. This is one of the major reasons for the strong rebound in imports.

Strong external demand. The 39% growth in exports in Q1 FY22 is much stronger than the 19% growth in private consumption. Clearly, the revival of external demand is stronger than domestic consumption demand.

Modest net imports. This remains 1.9% of GDP, a rather modest deficit.





Source: Central Statistical Office (CSO), Government of India.

Agriculture The most resilient segment

4.5% Growth

16.0% Share in GVA

15.5% Share in GVA, 5-yr avg.

4.4% Contr. to GVA growth

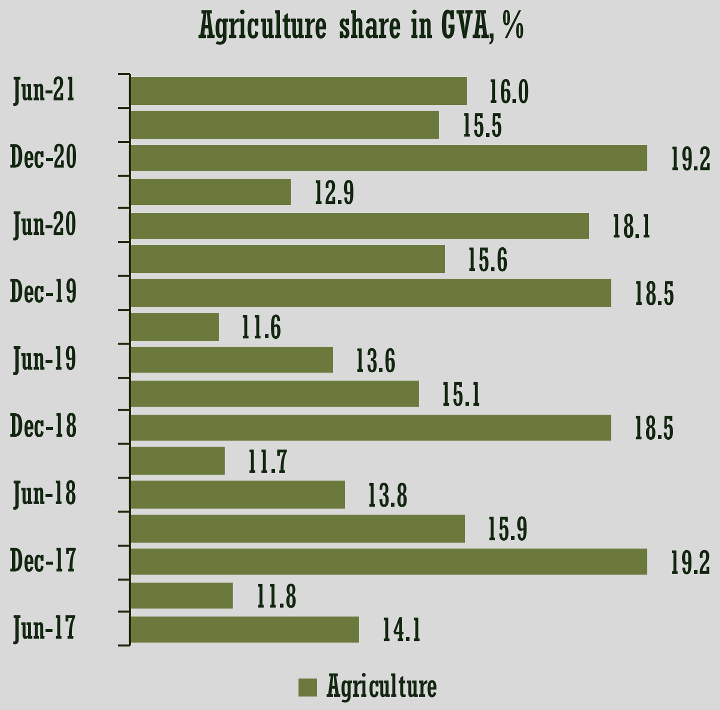
11.6% Contr. to GVA growth, 5-yr avg.

Agriculture remains the most resilient to the pandemic. The near-term outlook looks normal despite a rain deficit. Food prices are likely to be range-bound.

Agriculture resilient. The pandemic has not exerted any noticeable negative impact on real growth in agriculture. In fact, the reverse migration seems to have increased the rural workforce and led to more intensive farming.

Outlook on agriculture remains healthy. With significantly higher-than-normal rabi sowing and the ongoing kharif sowing catching up with the normal, the overall food supply situation and real growth in agriculture is likely to be in line with past averages.

Food prices to be range-bound. With resilience in agriculture and a modest hike in minimum support prices in the last three seasons, food inflation is unlikely to become a concern.



Source: Central Statistical Office (CSO), Government of India.

Industry Strong bounce back

46.1 % Growth

30.5% Share in GVA

30.6% Share in GVA, 5-yr avg.

60.9% Contr. to GVA growth

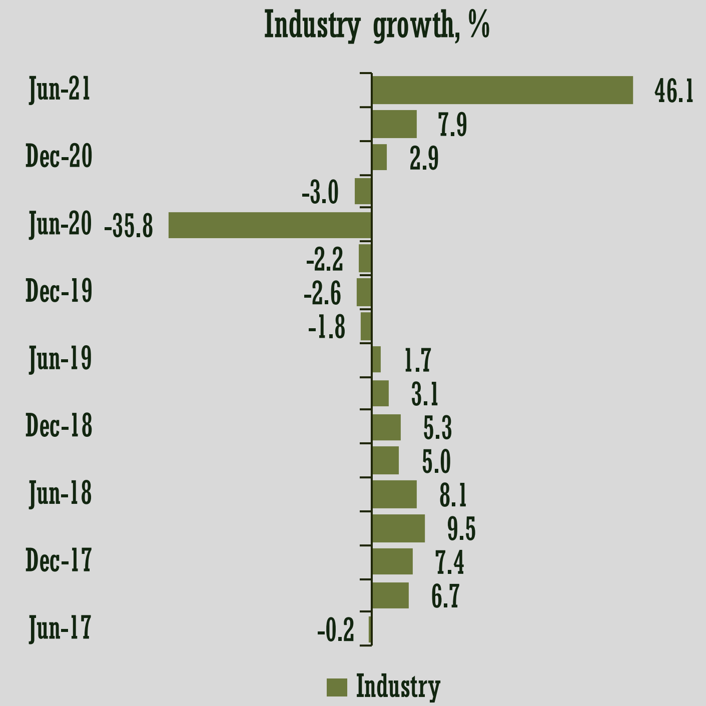
29.4% Contr. to GVA growth, 5-yr avg.

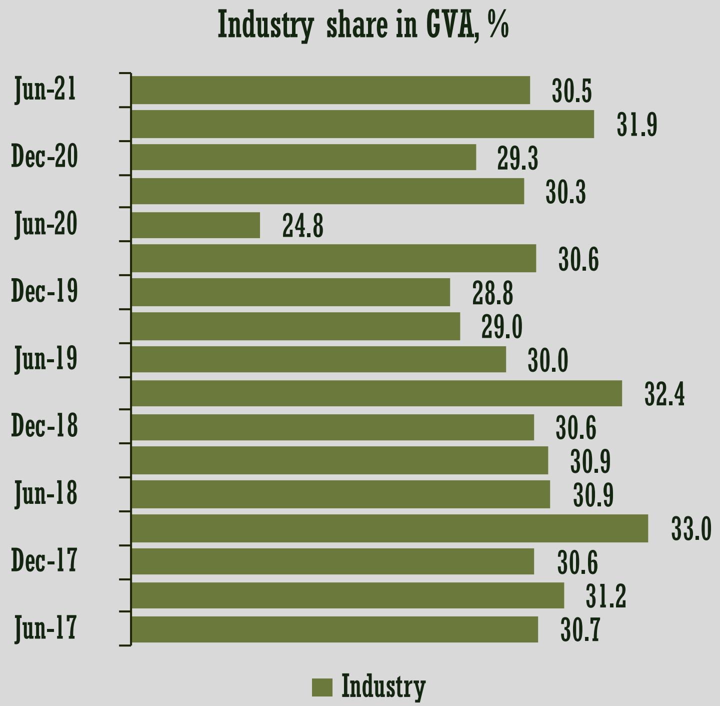
Industry is the most improved sector. While the low base played a huge role in the strong recovery, strong investment and external demand also helped.

Major bounce-back. Despite the re-imposition of lockdown restrictions due to the second wave, industry grew 46.1% in Q1 FY22 vs. a 35.8% contraction in Q1 FY21.

Jump in contribution to overall growth. Despite a 30.5% share in GVA, industry contributed over 61% of GVA growth in Q1 FY22. The performances of construction and manufacturing have been particularly strong.

Investment and external demand, key drivers. While domestic consumption – both private and government – has not been impressive, strong investment and external demand helped the industry. The coming festival and marriage season brightens the outlook.





Source: Central Statistical Office (CSO), Government of India.

Services Hardest hit segment

11.4% Growth

53.6% Share in GVA

53.7% Share in GVA, 5-yr avg.

34.8% Contr. to GVA growth

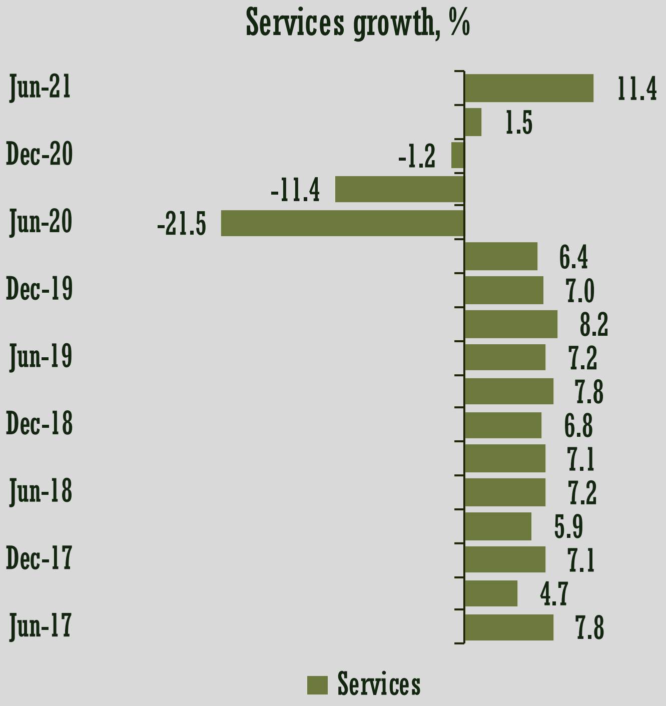
58.7% Contr. to GVA growth, 5-yr avg.

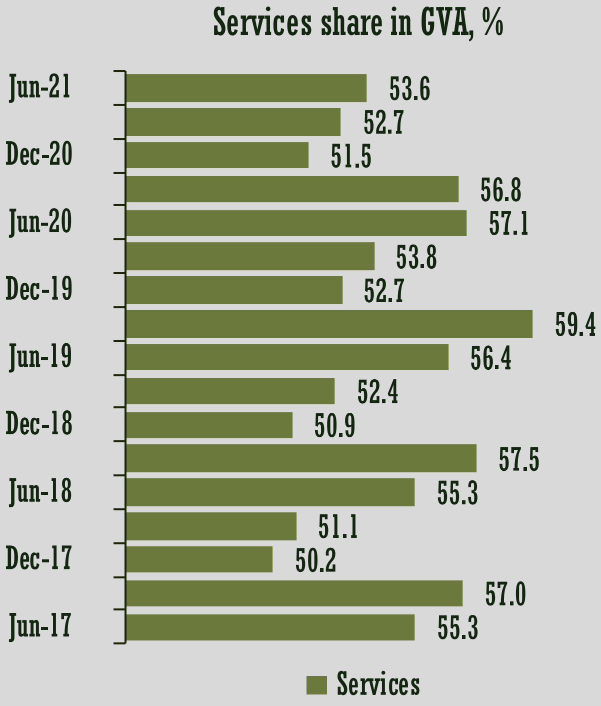
Services, the most impacted by the lockdown and social-distancing norms. While the move toward normalisation has started, full recovery may take longer for some segments.

Pandemic impact, highest for services. Social distancing norms constrain the effective delivery of a large range of services. Consequently, this sector was worst affected by the second wave.

Sharp fall in contribution to GVA growth. Despite comprising 53.6% of GVA in Q1 FY22, the contribution of services in overall growth during the quarter has been 34.8%.

Normalisation of some services may take longer. Some of the segments of the services sector including parts of retail trade, passenger transport and out-of-home entertainment may take considerable time to return to pre-pandemic levels.





Source: Central Statistical Office (CSO), Government of India.

GDP deflator GDP inflation closer to WPI inflation; GVA near CPI

11.4% Growth

53.6% Share in GVA

53.7% Share in GVA, 5-yr avg.

34.8% Contr. to GVA growth

58.7% Contr. to GVA growth, 5-yr avg.

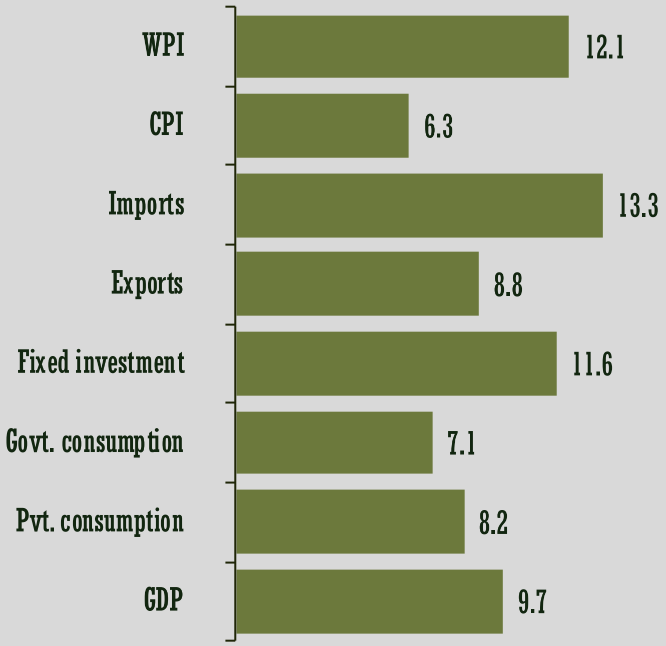
GDP/GVA inflation and WPI/CPI inflation are on expected alignments. Global commodity prices kept import, investment, mining and construction inflation high

GDP/GVA inflation in line with WPI/CPI. On expected lines, GDP inflation (9.7%) is close to WPI inflation (12.1%), and GVA inflation (6.5%) close to CPI inflation (6.3%).

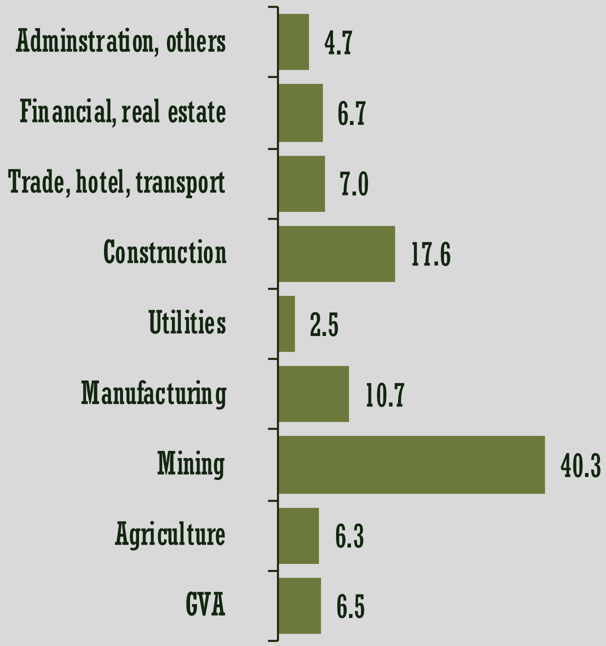
Strong price rise for imports and investment products. The rise in crude oil and other commodity prices seems to explain the elevated inflation of imports. High construction cost, on the other hand, explains the high inflation for investment-related products.

Jump in mining and construction costs. The global commodity price cycle seems to explain such elevated prices. With high nominal GDP growth, tax collection is likely to jump as direct tax rates are progressive.

GDP deflator and inflation, %



GVA deflator, %



Source: Central Statistical Office (CSO), Government of India.

Peer GDP growth comparison India, the fastest growing among G-20 peers

G 20 growing 11%+

India, the fastest growing

Broad-based growth recovery

Depressed base, a huge factor

Economic situation improving

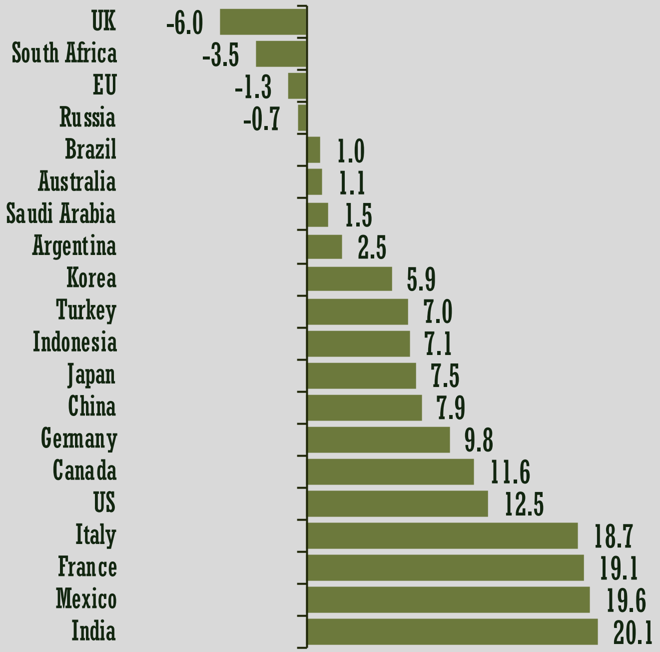
There was a strong bounce-back in the weighted average growth for G 20 countries in Jun'21. India is the fastest growing among the G 20 peers

India, the fastest growing G-20 country in Jun'21. With 20.1% growth in Q1 FY22, India is the fastest growing country among the major (G 20) economies. India, however, was the worst performing in Q1 FY21.

Strong acceleration in global growth. All G 20 countries, which published GDP data for Jun'21 have recorded strong acceleration of growth. For most (all except China), the contraction in GDP growth in the same quarter of last year has been the major reason.

Strong acceleration of average growth of G 20 countries. The weighted average GDP for the (reporting) countries was 11.4% in Jun'21 vs. a 9.9% contraction in the corresponding year-ago quarter.

Latest G-20 country GDP growth, %



Weighted average GDP growth, G-20, %

Source: Central Statistical Office (CSO), Government of India.

GDP growth and equity market

GDP and earnings growth strongly correlated; reasonable relation with equity returns, too

Earnings and GDP growth in line

15% nominal GDP growth in FY22

20-25% earnings growth in FY22

Market & economy in alignment

Market factors in GDP 2Q ahead

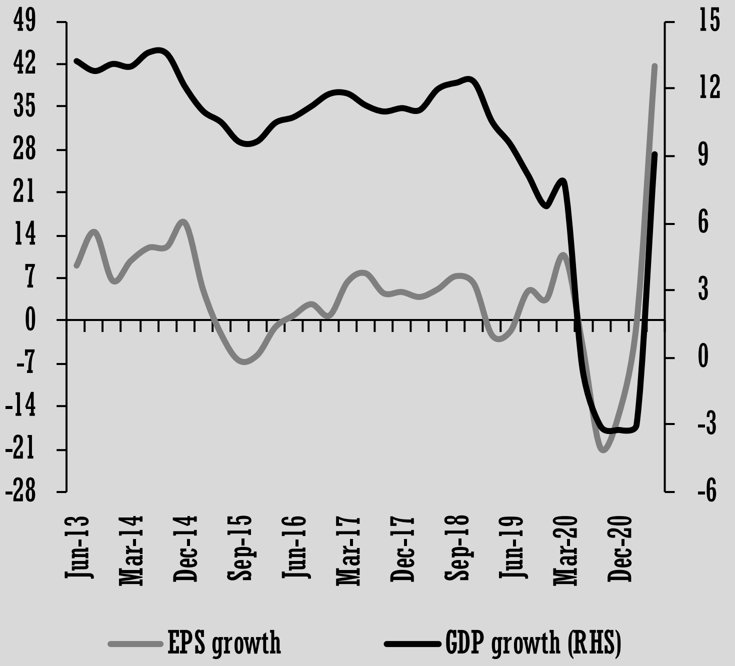
There is strong corelation between GDP and corporate earnings growth. Also, equity returns have reasonable corelation with two-quarter-forward GDP growth

Strong correlation between nominal GDP (TTM) and Nifty 50 earnings growth. The corelation is about 0.7. This shows the huge influence of macroeconomic forces on corporate earnings.

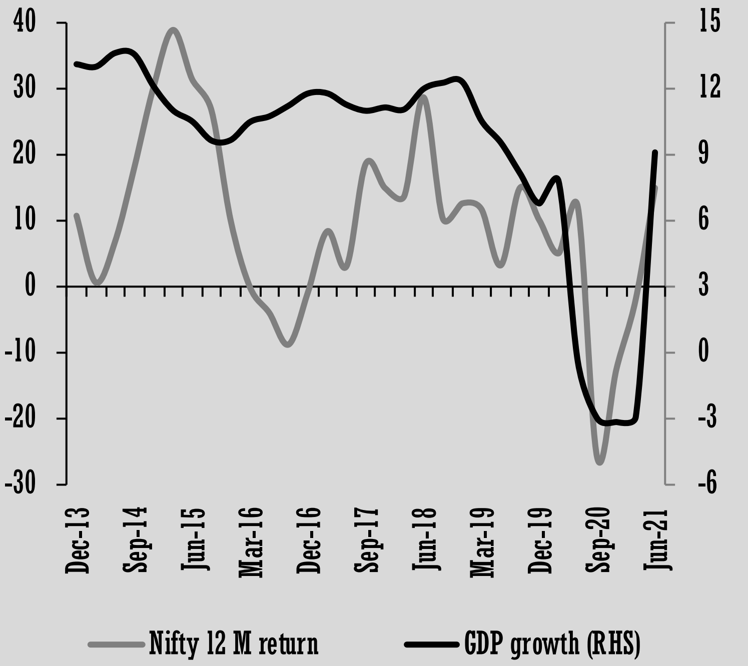
Nominal GDP growth of ~15% suggests 20-25%+ earnings growth in FY22. Since corporate earnings is more pro-cyclical vs. GDP, expansion in earnings can be even more.

Noticeable corelation between nominal GDP (TTM) growth and Nifty 50 performance. The corelation is over 0.5 when GDP growth is taken two quarters ahead. The equity market seems to have factored in future economic growth.

NIFTY 50 EPS vs. GDP growth, TTM, %



NIFTY 50 return vs. GDP growth, TTM, %



Source: Central Statistical Office (CSO), Government of India.

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Additional information on recommended securities/instruments is available on request ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097. Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.