ECOWRAP

GDP GROWTH LIKELY TO TOP 9.5% IN FY22: PRIVATE INVESTMENT REVIVAL SEEMS ROUND THE HORIZON

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India's GDP grew by 8.4% in Q2 FY22 (SBI estimate: 8.1%) on the back of double-digit growth in 'Mining & Quarrying' and 'Public Administration, Defence and Other Services'. The real GVA increased by 8.5%, a tad higher than the GDP growth. Nominal GDP growth jumped by 17.5%, driven in part by a GDP deflator at 8.4% . For Q2, seasonally adjusted real GDP growth is 6.6% q-o-q compared to 10.36% q-o-q non-adjusted real GDP growth. **Core GVA, a proxy of private sector growth expanded by 7.5%, the highest since Q1FY19.**

In H1 FY21, the country exhibited real GDP loss of Rs 11.4 lakh crore (on y-o-y basis) due to complete lockdown in Apr-May and partial lockdown in Jun-Sep. The situation has improved in FY22 and in H1 FY22 the real gain was around Rs 8.2 lakh crore. **This indicates that real loss of Rs 3.2 lakh crore still needs to be recouped to reach the pre-pandemic level**. Sector-wise data indicates that 'Trade, Hotels, Transport, Communication & Services related to Broadcasting' are still the most affected sectors and the real loss of Rs 2.6 lakh crore is still needed to be recouped in this sector. **Overall, economy is still operating at 95.6% of pre-pandemic level (with 'Trade, Hotels, Transport, Communication & Services related to Broadcasting' still at 80%) and should take one more quarter to recoup the losses**.

In Q2FY22, FMCG sector reported a top line yoy growth of 11% while EBIDTA and PAT grew by 4% each. However, rural markets, which have shown good resilience thus far during the pandemic have slowed in the last couple of months as suggested by some of the industry majors. However, the results of industry majors whose Q2 FY22 results have been declared (like Dabur) have still not shown a significant slowdown in the rural economy.

The Q2 estimate of the GDP on the expenditure side largely retains the flavour of trends observed in Q1FY22. Foremost in quarterly trends the shares in real terms have decreased for Private Consumption, Government Consumption and Exports and have increased for Imports and Investments and Valuables. The component which has also increased is the inventories which has surpassed the pre-COVID level of FY20. Thus, accounting for the growth in production and concomitant accumulation of inventory, demand side has not recovered even after opening of the economy. The massive jump in valuables which implies savings to the tune of 2% of the GDP have moved into precious metals given their inflation hedging property and postponement of marriage in FY21.

The good thing is that new investment announcements in current year looks encouraging with around Rs 8.6 lakh crore investment announcements made so far in last seven months of FY22 (around Rs 11 trillion reported in last year). **With private sector contributing around 67% of this i.e. Rs 5.80 lakh crore, it seems private investment revival is on the horizon . Also, SBI Business Activity Index** at 110.7 for the week ended 29th Nov'21 indicates further pick-up in economic momentum.

In terms of guidance for next quarter, during the fortnight ended 05 Nov'2021 (22-Oct to 05-Nov'2021), ASCB's credit has increased at the highest pace of Rs 1.18 lakh crore ((7.1% YoY), which is 56% of the incremental credit of Rs 2.14 lakh crore during the FY. The sectoral data for the month of October 2021 indicates a robust pickup in credit off-take in almost all major sectors of the economy. In October, overall credit has increased by Rs 89,500 crores, with maximum contribution from personal loans (Rs 37100 crores), followed by Services (Rs 32400 crores). Other personal loans, mostly to salaried people, has continued to grow at a robust pace.

The echoes of the fast-spreading latest virus strain, **Omicron**, declared a 'variant of concern' by an edgy WHO seem to have reignited the worst fears of multiple nations, more so in view of the increased chances of reinfection posed by its 30-plus strains, even while researchers are frantically upping the ante to confirm the seemingly enhanced levels of transmissibility and severity of infection against effectiveness of vaccine doses administered (Moderna's warning today about the relatively subordinate efficacy of vaccine against new found variant adding to the uncertainty), and also the worrisome status of other vulnerable groups amidst vaccine distribution inequality.

We now expect GDP growth for FY22 to top 9.5%, the RBI forecast. We believe that the real GDP growth would now be higher than the RBI's estimate of 9.5% , assuming the RBI growth numbers for Q3 and Q4 to be sacrosanct.

GDP GREW BY 8.4% IN Q2 FY22

- As expected, India's GDP grew by 8.4% in Q2 FY22 (SBI estimate: 8.1%) on back of double-digits growth in 'Mining & quarrying' and 'Public administration, defence and Other Services'. The real GVA increased by 8.5% a tad higher than the GDP growth. A possible reason for the GVA>GDP may be the frontloading of the subsidies.
- **Agriculture:** Agriculture and allied sector remain unscathed from the pandemic and growing strong. The sector grew by 4.5% in Q2 FY22 (same as Q1 FY22) as against 3.0% in Q2 FY21.
- **Industry:** Industry was the worst affected sector during the pandemic and rebound sharply in Q2 FY22 (grew by 6.9%) due to 15.4% growth in 'Mining & quarrying', 5.5% growth in Manufacturing and 7.5% growth in construction. Though much of these sub-sectors grew due to the low/negative base in Q2 FY21, 'Electricity, gas, water supply & other utility services' grew by 8.9% in Q2 FY22 despite being grew by 2.3% in Q2 FY21.
- **Services:** Services sector has exhibited a YoY growth of 10.2%, and QoQ by 16.2%. A significant QoQ growth of 24.9% and 24.7% has seen in 'trade, hotels, transportation' and 'Public administration and defence' respectively. However, 'financing, insurance, real estate & bus Services' QoQ growth declined to 7.0% in Q2FY22.

GDP: EXPENDITURE SIDE

- The Q2 estimate of the GDP on the expenditure side largely retain the flavour of trends observed in Q1FY22. Foremost in quarterly trends the shares in real terms have decreased for private consumption, government consumption and exports and have increased for imports and investments and valuables. The dominant components of domestic demand have declining shares and components such as imports, and valuables which anyways negatively impact growth have increased. Thus, on a base adjusted basis the GDP growth works out to -2.8% which is bit worse than Q1 base adjusted figure of -2.2%.
- If we work out the demand side scenario purely based on H1 figures as any seasonality will be suppressed by aggregation, the demand side picture is no different than what is derived from the quarterly figures.
- In absolute real terms the private consumption, government consumption and capital formation have still not attained the level seen in FY20. Even if the capital formation has shown better recovery in FY22, the pickup in pace is still to shed the overhang of the COVID-year of FY21.

GVA and GDP at Constant Price by Economic Activity (YoY%)

Sectors	FY21 Q1	FY21 Q2	FY21 Q3	FY21 Q4	FY21 Annual	FY22 Q1	FY22 Q2
Agriculture	**3.5**	**3.0**	**4.5**	**3.1**	**3.6**	**4.5**	**4.5**
Industry	**-35.8**	**-3.0**	**2.9**	**7.9**	**-7.0**	**46.1**	**6.9**
Mining & quarrying	-17.2	-6.5	-4.4	-5.7	-8.5	18.6	15.4
Manufacturing	-36.0	-1.5	1.7	6.9	-7.2	49.6	5.5
Electricity, gas, water supply & other utility services	-9.9	2.3	7.3	9.1	1.9	14.3	8.9
Construction	-49.5	-7.2	6.5	14.5	-8.6	68.3	7.5
Services	**-21.5**	**-11.4**	**-1.2**	**1.5**	**-8.4**	**11.4**	**10.2**
Trade, hotels, transport, communication & services related to broadcasting	-48.1	-16.1	-7.9	-2.3	-18.2	34.3	8.2
Financial, real estate & professional service	-5.0	-9.1	6.7	5.4	-1.5	3.7	7.8
Public administration, defence and Other Services	-10.2	-9.2	-2.2	2.3	-4.6	5.8	17.4
Total GVA at Basic Price	**-22.4**	**-7.3**	**1.0**	**3.7**	**-6.2**	**18.8**	**8.5**
GDP	**-24.4**	**-7.4**	**0.5**	**1.6**	**-7.3**	**20.1**	**8.4**

Source: CSO & 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	GVA %	GDP %
Q1FY20	2.3	1.5	0.8	2.6	5.0	5.4
Q2FY20	2.2	0.6	1.6	2.9	4.6	4.6
Q3FY20	2.3	0.4	1.9	3.0	3.4	3.3
Q4FY20	2.7	-0.3	3.0	4.4	3.7	3.0
Q1FY21	1.5	-1.4	2.9	1.3	-22.4	-24.4
Q2FY21	2.5	0.8	1.7	2.6	-7.3	-7.4
Q3FY21	3.2	0.7	2.5	2.8	1.0	0.5
Q4FY21	3.6	4.6	-1.0	3.8	3.7	1.6
Q1FY22	2.8	1.0	1.8	1.9	18.8	20.1
Q2FY22	3.1	0.8	2.3	2.8	8.5	8.4

Source: CGA; NSO; SBI Research

GDP by Expenditure Side at Constant Price (YoY%)

Item	FY21 Q1	FY21 Q2	FY21 Q3	FY21 Q4	FY21 Annual	FY22 Q1	FY22 Q2
Total final consumption expenditure	-19.9	-13.4	-2.6	6.4	-7.3	13.8	8.6
Private final consumption expenditure	-26.2	-11.2	-2.8	2.7	-9.1	19.3	8.6
Government final consumption expenditure	12.7	-23.5	-1.0	28.3	2.9	-4.8	8.7
Gross fixed capital formation	-46.6	-8.6	2.6	10.9	-10.8	55.3	11.0
Change in Stocks	-32.8	3.3	6.7	12.2	-2.6	45.9	2.7
Valuables	-93.0	-4.5	10.7	107.2	2.0	456.1	183.3
Exports	-21.8	-2.0	-3.5	8.8	-4.7	39.1	19.6
Less Imports	-40.9	-17.9	-5.0	12.3	-13.6	60.2	40.6
Discrepancies	918.0	89.4	-42.9	-129.9	-104.3	-53.3	87.6
GDP At Market Price	**-24.4**	**-7.4**	**0.5**	**1.6**	**-7.3**	**20.1**	**8.4**

Source: NSO & SBI Research

- The component which has increased is the inventories which has surpassed the pre-COVID level of FY20. Thus, accounting for the growth in production and concomitant accumulation of inventory, demand side has not recovered even after opening of the economy.
- The massive jump in valuables which implies savings to the tune 2% of the GDP have moved into precious metals given their inflation hedging property and postponement of marriage in FY21. This trend also does not augur well from the point of view of financing growth and fiscal deficit. On the EXIM side both exports and imports have surpassed pre-COVID level but cushion of positive CAD in FY21 is no more available this year implying the net exports component will drag the GDP down this year.

- The implicit inflation in H1 FY22 works out at 10% which is higher than 2.5% will impact the demand in coming quarters.
- Overall, the diagnosis of the economy on the domestic front is output which is still below the potential level and is facing high inflationary pressure. The consumption recovery in the Q2 FY22 is not broad based. The revival of investment demand holds the key to overall recovery, consumption demand and eventually GST collections.

GROWTH IN GDP DEFLATOR

- In Q2 FY22 growth in GDP deflator declined to 8.4% yoy compared to 9.7% in Q1 FY22. Meanwhile growth in GVA deflator increased to 7.7% yoy from 6.5% in Q1.
- Growth in GDP deflator for services increased to 6.4% from 5.6% in Q1 FY22. For industry it remained almost same at 13.4%, with deflator growth for mining and construction still elevated. For agriculture, growth in deflator declined to 3.3% as nominal growth decelerated to 7.9% yoy in Q2 FY22 when compared to 11.1% in Q1 FY22.
- Furthermore, the average yoy growth in WPI manufacturing of non-food products has been higher than the average yoy growth in WPI primary food articles in FY22 so far, with the huge gap between the two. This is particularly worrisome as terms of trade are moving significantly against the agri sector indicating the stress on rural economy.
- In Q2FY22, FMCG sector reported a top line yoy growth of 11% while EBIDTA and PAT grew by 4% each. However, rural markets, which have shown good resilience thus far during the pandemic, have slowed in the last couple of months as suggested by some of the industry majors.
- However, the results of industry majors whose Q2 FY22 results have been declared (like Dabur) have not shown a significant slowdown in the rural economy.

NOMINAL AND REAL LOSS

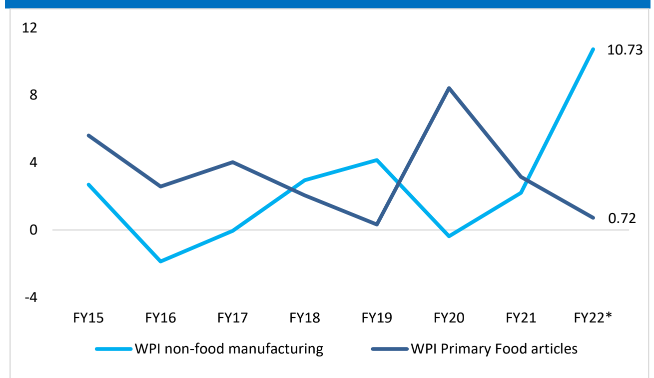
- In H1 FY21, the country exhibited real GDP loss of Rs 11.4 lakh crore (on y-o-y basis) due to complete lockdown in Apr-May and partial lockdown in Jun-Sep. The situation has improved in FY22 and in H1 FY22, the real gain was around Rs 8.2 lakh crore. This indicates that real loss of Rs 3.2 lakh crore still needs to be recoup to reach the pre-pandemic level. Sector-wise data indicate that 'Trade, Hotels, Transport, Communication & Services related to Broadcasting' is the most affected sector and the real loss of Rs 2.6 lakh crore is still needed to recoup in this sector. Even in nominal terms while loss in almost all sectors recouped, the loss in aforesaid sector is still large (Rs 2.15 lakh crore) and needs to recoup.

GVA and GDP by Economic Activity (YoY%)

	Q1FY22			Q2 FY22		
	Real	Nominal	Deflator	Real	Nominal	Deflator
Agriculture	**4.5**	**11.1**	**6.3**	**4.5**	**7.9**	**3.3**
Industry	**46.1**	**65.9**	**13.5**	**6.9**	**21.3**	**13.4**
Mining & quarrying	18.6	66.4	40.3	15.4	55.5	34.7
Construction	68.3	98.0	17.6	7.5	28.2	19.3
Services	**11.4**	**17.7**	**5.6**	**10.2**	**17.3**	**6.4**
Trade, hotels, transport, communication & services related to broadcasting	34.3	43.7	7.0	8.2	15.7	6.9
Financial, real estate & professional service	3.7	10.6	6.7	7.8	14.8	6.5
Total GVA at Basic Price	**18.8**	**26.5**	**6.5**	**8.5**	**16.8**	**7.7**
GDP	**20.1**	**31.7**	**9.7**	**8.4**	**17.5**	**8.4**

Source: CSO & SBI Research

WPI food and non-food manufacturing (% yoy)



Source: SBI Research

- Overall, economy is still operating at 95.6% of pre-pandemic level (with 'Trade, Hotels, Transport, Communication & Services related to Broadcasting' still at 80%) and will take one more quarter to recoup the losses.
- On expenditure side, Gross fixed capital formation is still 8.2% below the pre-pandemic level. Government and private consumption expenditure are also 5.3% and 7.7% below the pre-pandemic level.

Y-o-Y Real Loss/Gain (Rs crore)

Sector	H1 FY21	H1 FY22	Deviation from Pre-Pandemic level (H1 FY20)	
			Rs crore	%
1. Agriculture, forestry & fishing	27,395	38,547	-	108.0%
2. Industry	-3,83,201	3,56,931	-26,270	98.6%
2.1 Mining & quarrying	-18,468	22,115	-	102.5%
2.2 Manufacturing	-2,12,578	2,10,915	-1,663	99.9%
2.3 Electricity, gas, water supply & other utility services	-6,080	17,329	-	107.2%
2.4 Construction	-1,46,076	1,06,572	-39,504	92.1%
3. Services	-6,22,715	3,42,569	-2,80,146	92.6%
3.1. Trade, hotels, transport, communication & services related to broadcasting	-4,22,034	1,62,296	-2,59,738	80.1%
3.2. Financing, insurance, real estate & bus. Services	-1,18,989	89,277	-29,712	98.2%
3.3. Public administration, defence and Other Services	-81,693	90,996	-	101.1%
Total GVA at Basic Price	**-9,78,532**	**7,38,058**	**-2,40,474**	**96.3%**
GDP	**-11,36,098**	**8,19,332**	**-3,16,766**	**95.6%**

Source: NSO,SBI Research

SEASONALLY ADJUSTED REAL GDP

- The sequentially seasonally adjusted GDP growth is higher than the non-seasonally adjusted GDP growth for Q1 every financial year since FY12. For Q2 however, seasonally adjusted growth was higher till FY18, and after that it became lower than non-seasonally adjusted real growth.
- For Q2 FY22 seasonally adjusted real GDP growth is 6.6% qoq compared to 10.36% qoq non-adjusted real GDP growth.

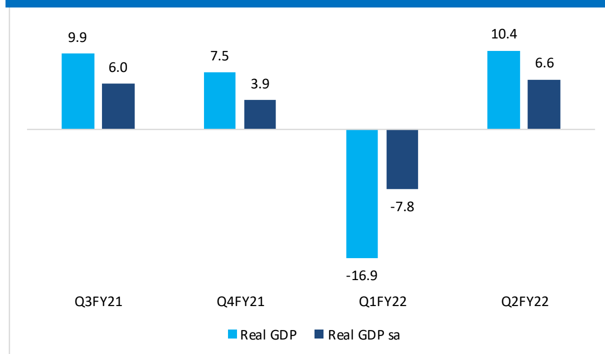
BUSINESS ACTIVITY INDEX

- Our business activity index show activity above pre-Covid level since Aug'21, with only a few weeks having reading moderately below 100. The indicator declined during the Diwali week, however it picked up again the next week.
- The latest reading at 110.7 for the week ended 29th Nov'21 indicates further pick-up in economic momentum despite the uncertainty surrounding the new mutation of the virus. The uptick has been majorly due to significant jump in RTO revenue collection, weekly food arrival and electricity consumption.

CREDIT GROWTH CONTINUED UPWARD

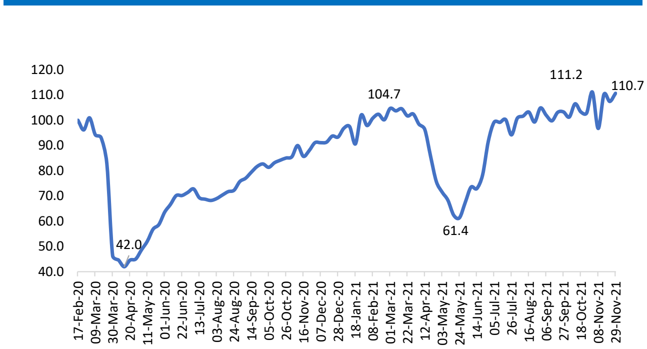
- During the fortnight ended 05 Nov'2021 (22-Oct to 05-Nov'2021), ASCB's credit has increased highest of Rs 1.18 lakh crore ((7.1% YoY), which is 56% of the incremental credit of Rs 2.14 lakh crore during the FY.
- The sectoral data for the month of October 2021, indicate a robust pickup in credit off-take in almost all major sectors of the economy. In October, overall credit has increased by Rs 895 billion, with maximum contribution from personal loans (Rs 371 bn), followed by Services (Rs 324 bn). Other personal loans, mostly to salaried people, has continued to grow at a robust pace.

Real GDP growth seasonally adjusted (% qoq)



Source: SBI Research

Business activity Index



Source: SBI Research

- As the demand for credit has revived, if deposits grew by Rs 6.0 lakh crore and credit by Rs 5.0 lakh crore during the rest of the FY (5 Nov to 25 Mar'2022), then the deposits growth will be around 16% and Credit around 8.5% in 2021-22.

ASCBs Sector-Wise Credit Flow (Rs bn): October 2021

Sectors	YTD (Apr-Oct, FY21)		Monthly Growth (Rs bn)							YTD % (Apr-Oct, FY22)		% YoY	
	Rs bn	%	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Rs bn	%	Oct'20	Oct'21
Agri. & Allied	578	5.0	203	-65	-4	336	-138	171	227	730	5.7	7.2	10.2
Industry	-1402	-4.9	1	-121	-165	-424	-53	99	250	-412	-1.4	-0.7	4.1
MSE (Priority)	477	4.4	-527	-326	85	626	115	-97	201	77	0.7	8.0	-0.5
Infrastructure	-350	-3.3	-10	-62	74	-112	38	10	229	167	1.5	0.1	8.9
Services	-476	-1.8	-550	-213	295	-29	276	-538	324	-434	-1.6	8.6	2.9
NBFCs	-652	-7.0	-142	-243	-157	84	-217	63	68	-543	-5.8	7.0	1.4
Personal Loans	566	2.2	-351	-232	-7	722	352	246	371	1101	3.9	8.7	11.7
Housing (Including Priority)	328	2.5	31	5	26	21	30	87	68	269	1.8	8.1	8.4
Other Personal Loans	261	3.7	-171	-78	10	380	217	95	177	631	7.9	12.0	17.8
Gross Bank Credit	-331	-0.3	-911	-268	83	686	-130	593	895.01	947	0.9	5.1	6.8

Source: SBI Research

IS THERE A PRIVATE INVESTMENT REVIVAL?

- New investment announcements in current year looks encouraging with around Rs 8.6 lakh crore investment announcements made so far in last seven months in FY22 (around Rs 11 trillion reported in last year), as per Projects Today. With private sector contributing around 67% of this i.e. Rs 5.80 lakh crore, it seems private investment revival is on the cards. Major sectors reported fresh project announcement includes Roadways, Real Estate, Basic chemicals, Iron & Steel, Electronics, Plastic and Plastic products, Automobiles, Non-Conventional Energy, etc.
- Tender issuances, which kick starts the process, also gives cheering numbers with Rs 4.40 lakh crore worth tender issuances reported in last seven months from major sectors such as Roadways (Rs 1.45 lakh crore), Railways (Rs 35 thousand crore), Water Sewage Pipeline & distribution (Rs 47 thousand crore), Coal (Rs 23 thousand crore), Hospitals (Rs 25 thousand crore), Irrigation (Rs 23 thousand crore) etc.
- Order book position, of major construction/capital goods companies, too reflects improvement as of Sept'21 as compared to March'21 level (see table). In L&T also, though the order book position seems flat, the order inflow for H1FY22 is 33% higher than the same period previous year i.e. order inflow of Rs 687 bn reported in H1FY22 as compared to Rs 516 bn in H1FY21 with major inflows from Hydrocarbon, Infrastructure, Heavy Engineering, Realty and Industrial Machinery businesses.
- Improving rating outlook — Credit ratio (rating upgrade to downgrade), though below one, seems to be improving for these capital-intensive/ capex sectors in FY22 (April to Oct'21) as compared to last year. Though not much change in credit ratios seen in Capital goods and Constructions & Engineering space yet, visible improvement is seen in sectors such as Steel, Cement, Energy etc.

Order Book Position Rs. in Bn

Company	March-20	March-21	Sept-21	Growth over March' 21
BHEL	1,084	1,021	1,100	7.74%
L&T	3,039	3,274	3,305	0.95%
KEC International Ltd.	205	191	212	10.99%
Dilip Buildcon Ltd	191	274	231	-15.69%
Kalpataru Power Transmission Ltd.	133	279	311	11.47%

Source: SBI Research; company/market reports

Sectorwise credit ratio (upgrade to downgrade)

Sector	FY21	FY22 #	Improvement
Capital Goods-Non Electrical Equipment	0.2	0.3	0.1
Construction & Engineering	0.2	0.2	0.0
Metals and Mining	0.2	0.4	0.2
Steel	0.2	0.4	0.2
Capital Goods - Electrical Equipment	0.2	0.2	0.0
Cement	0.6	2.7	2.1
Energy	0.2	0.6	0.4

Source: SBI Research; CRISIL quantix; # FY22 - from April to Oct'21

WAY FORWARD

- The echoes of the fast-spreading latest virus strain, Omicron, declared a 'variant of concern' by an edgy WHO seem to have reignited the worst fears of multiple nations, more so in view of the increased chances of reinfection posed by its 30-plus strains, even while researchers are frantically upping the ante to confirm the seemingly enhanced levels of transmissibility and severity of infection against effectiveness of vaccine doses administered (Moderna's warning today about the relatively subordinate efficacy of vaccine against new found variant adding to the uncertainty), and also the worrisome status of other vulnerable groups amidst vaccine distribution inequality.
- Now it is clear that GDP growth for FY22 will be more than 9%. We believe that the real GDP growth would be higher than the RBI's estimate of 9.5% and may be near to 10%.

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