Despite headwinds, In India, global economic activity remained resilient in the Q1FY24, driven mainly by the services sector. This is in sharp contrast to IMF's latest forecast estimating global growth to fall from 3.5% in CY22 to 3% each in CY23 and CY24 with rapid rate hikes by central banks to fight sticky inflationary trends weighing on economic activity. Also, globally, nonservices sectors, including manufacturing, have shown weakness, and high-frequency indicators for the Q1FY24 point to a broader slowdown in activity. Plus, gross fixed capital formation (GFCF) and industrial production have slowed sharply or contracted in major advanced economies, dragging international trade and manufacturing in emerging markets as a corollary. The balance of risks to global growth remains tilted to the downside as extreme climatic events and enhanced geopolitical tension upend the drivers of risk multifold.

Notwithstanding the headwinds, IMF has projected India's growth at **6.1% in 2023, a 0.2 percentage point upward revision** compared with the April projection, due to stronger-than-expected growth in the fourth quarter of 2022 as a result of stronger domestic investment. In Q1FY24, Manufacturing is sustained as reflected in better IIP, automobile sales, PMI data etc. Further, agriculture sales has been strong and power supply has been high. On the services side, passenger traffic picked up in Q4FY23 has sustained while Air cargo traffic increased. The **SBI composite leading indicator (**CLI) Index (a basket of 43 leading indicators which includes parameters from almost all the sectors) based on monthly data shows **continued positive economic activity in Q1FY24, compared to Q4FY23**.

RBI has estimated Q1FY24 Real GDP growth at 7.8% and full year FY24 growth at 6.5% . **At SBI, we have developed an Artificial Neural Network (ANN) model with 30 high frequency indicators**. ANN has been trained for the quarterly GDP data from 2011Q4 to 2020Q4. The in- sample forecast performance of the model in the training period has been precise.

Out of Sample Forecast Performance, of the last four quarters have been precise. **On the basis of the ANN model, we forecast that the quarterly GDP growth for the Q1FY24 would be at 8.3%.** Given that the GDP deflator at -0.6% (due to negative WPI), we expect nominal GDP growth at 7.7-7.8% for Q1 FY24. This the first time since Q4 FY19, when nominal GDP growth is expected to be less than the real GDP growth.

Most importantly, there has been a surge in capital expenditure in Q1, with Central government spending 27.8% of budgeted, while states at 12.7% of budgeted. States like Andhra Pradesh, Telangana, Madhya Pradesh where are elections are due have registered capital expenditure growth upto 41%.

Analysing Corporate results strengthens the faith in our growth numbers. In Q1FY24, Indian Inc. reported top line growth of around 3% while **EBIDTA and PAT grew by more than 30%**, as compared to Q1FY23, contributed by sectors like Banks, Auto, IT, Pharma, FMCG, Refineries etc. **Corporate results, for Q1FY24, ex BFSI**, represented by more than **3000 listed entities** shows almost flat topline. However, **EBIDTA and PAT grew by 23% and 33% respectively** as compared to Q1FY23.

Further, it is pertinent to mention that corporate margin, which was under pressure for last few quarters, shown sign of improvement since Q4FY23. **EBIDTA margin, on aggregate basis of more than 3000 companies, improved by 274 bps to 15.81% in Q1FY24 as compared to 13.07% in Q4FY23 and 12.60% in Q1FY23, contributed by low input prices.**

Bolstering the faith further are the statistics from banking system. **Credit growth continued to grow in double digits and has become broad based across sectors. ASCB's credit growth (y-o-y) has been accelerating since early 2022. In 2023-24 (up to 28 July), ASCB's Deposits grew by 12.9% (last year 9.2%), and credit grew by 19.7% (last year: 14.5%).**

The growth in incremental deposits growth has almost doubled at Rs 11.3 lakh crore, compared to last year incremental growth of Rs 5.0 lakh crore (Rs 2.73 lakh crore received through Rs 2000 banknotes and Rs 1.5 lakh crore from HDFC merger. Despite rising interest rates, the overall economic growth led to higher credit demand leading to banks reporting a robust rise in advances. **Both the PSBs and private sector banks logged in equal pace of loan growth during Q1FY24.** All the major financial parameters viz., credit deployment, profitability, asset quality, capital adequacy etc. indicate that the performance of PSBs has significantly improved. They're adequately capitalised, resilient, and have sound financial health. In Q1FY24, PSBs declared net profit of **Rs 34418 crore and seem likely immune to any visible macroeconomic shock** while being ready to anchor credit needs.

GDP GROWTH & OUTLOOK: Q1 FY24

♦ IMF has forecasted global growth to fall from 3.5% in CY22 to 3% each in CY23 and CY24 with rapid rate hikes by central banks weighing on economic activity. Despite headwinds, In India, global economic activity was resilient in the Q4 FY23, driven mainly by the services sector. At global level, Nonservices sectors, including manufacturing, have shown weakness, and high-frequency indicators for the Q1FY24 point to a broader slowdown in activity.

♦ Gross fixed capital formation and industrial production have slowed sharply or contracted in major advanced economies, dragging international trade and manufacturing in emerging markets.

♦ IMF has projected India's growth at 6.1% in 2023, a 0.2 percentage point upward revision compared with the April projection, due to stronger-than-expected growth in the fourth quarter of 2022 as a result of stronger domestic investment.

♦ In Q1FY24, Manufacturing is sustained as reflected in IIP, automobile sales, PMI data. Further, Agriculture sales has been strong. Power Supply has been high. In the service side, passenger traffic picked up in Q4FY23 has sustained, Air cargo traffic increased.

♦ Most importantly, there has been a surge in capital expenditure in Q1, with Central government spending 27.8% of budgeted, while states at 12.7% of budgeted. States like Andhra Pradesh, Telangana, Madhya Pradesh where are elections are due have registered capital expenditure growth upto 41%.

♦ **GDP Growth as per SBI composite leading indicator (CLI)** continued positive economic activity in Q1FY24, compared to Q4FY23.

SBI ANN NOWCASTING MODEL

♦ SBI Artificial Neural Network (ANN) model which reflects the behavior of human brain, allows computer programs to recognize patterns and solve problem with machine learning.

♦ An Artificial neural network is a computational network based on biological neural networks that construct the structure of the human brain. Similar to a human brain has neurons interconnected to each other, artificial neural networks also have neurons that are linked to each other in various layers of the networks. These neurons are known as nodes.

Real GDP Projections		
	SBI	RBI
FY24 Q1 P	8.3%	7.8-8%
FY24 P	**6.7%**	**6.5%**

Source: RBI; SBI Research

Mapping of Leading Indicators with GDP Growth			
Year	Quarter	% of indicators showing acceleration	GDP Growth (%)
FY18	Q1 FY18	59	6.1
	Q2 FY18	70	5.3
	Q3 FY18	71	6.7
	Q4 FY18	80	8.9
FY19	Q1 FY19	73	7.5
	Q2 FY19	73	6.5
	Q3 FY19	63	6.2
	Q4 FY19	48	5.7
FY20	Q1 FY20	41	5.1
	Q2 FY20	35	4.3
	Q3 FY20	34	3.3
	Q4 FY20	39	2.9
FY21	Q1 FY21	19	-23.4
	Q2 FY21	29	-5.7
	Q3 FY21	50	1.6
	Q4 FY21	59	3.4
FY22	Q1 FY22	75	21.6
	Q2 FY22	70	9.1
	Q3 FY22	61	5.2
	Q4 FY22	61	4.0
FY23	Q1 FY23	88	13.1
	Q2 FY23	76	6.2
	Q3 FY23	69	4.5
	Q4 FY23	70	6.1
FY24	Q1 FY24	69	8.3

Source: SBI Research

Capital Expenditure as % of Budgeted (Apr-Jun)					
States	FY24	FY23	States	FY24	FY23
Central	27.8	23.4	Kerala	20.9	16.9
All States	12.7	8.4	Madhya Pradesh	26.6	17.4
Andhra Pradesh	40.8	7.0	Maharashtra	4.8	9.3
Bihar	13.3	9.1	Odisha	11.6	7.9
Chhattisgarh	8.7	14.5	Punjab	4.3	2.2
Gujarat	17.0	18.0	Rajasthan	19.8	8.8
Haryana	15.9	10.9	Tamil Nadu	11.7	9.2
Himachal Pradesh	11.7	14.1	Telangana	26.6	8.1
Jammu and Kashmir	3.0	1.0	Uttar Pradesh	6.8	3.8
Jharkhand	8.5	5.9	Uttarakhand	10.1	4.4
Karnataka	3.4	10.3	West Bengal	13.2	8.1

Source: CAG, CGA, SBI Research

- ANN comprises of Node layers containing of An Input layer, hidden layers, and an output layer. Each individual node is composed of input data, weights, a bias (threshold) and an output. ANNs rely on training data to learn and improve their accuracy over time.

- Once input layer is determined and weights are assigned, all inputs are multiplied with their respective weights and then summed , afterward the output is passed through an activation function, which determines the output. If that output exceeds a given threshold, it activates the node passing data to the next layer in the network, thereby making output of one node becoming the input of next node.

$$\sum_{i=1}^{n} w_i x_i + bias = w_1 x_1 + w_2 x_2 + w_3 x_3 + bias$$

$$Output = \begin{cases} 1 \text{ if } \sum_{i=1}^{n} w_i x_i + bias \geq 0 \\ 0 \text{ if } \sum_{i=1}^{n} w_i x_i + bias < 0 \end{cases}$$

- **We have developed a ANN model with 30 high frequency indicators. ANN has been trained for the quarterly GDP data from 2011Q4 to 2020Q4. The in - sample forecast performance of the model in the training period has been precise.**

- Out of Sample Forecast Performance, of the last four quarters have been precise. On the basis of the ANN model, we forecast that the **quarterly GDP growth for the Q1FY24 would be at 8.3%.**

Q1FY24 RESULT UPDATE - ROBUST CORPORATE PERFORMANCE, IMPROVEMENT IN MARGIN REPORTED

- After posting excellent result in FY23 with 22% growth in topline and 11% growth in PAT, in Q1FY24, Indian Inc. reported top line growth of around 3% while EBIDTA and PAT grew by more than 30%, as compared to Q1FY23, contributed by sectors such as Banks, Auto, IT, Pharma, FMCG, Refineries etc.

- Corporate results, for Q1FY24, ex BFSI represented by more than 3000 listed entities shows, almost flat topline. However, EBIDTA and PAT grew by 23% and 33% respectively as compared to Q1FY23.

Plot of GDP ANN Model
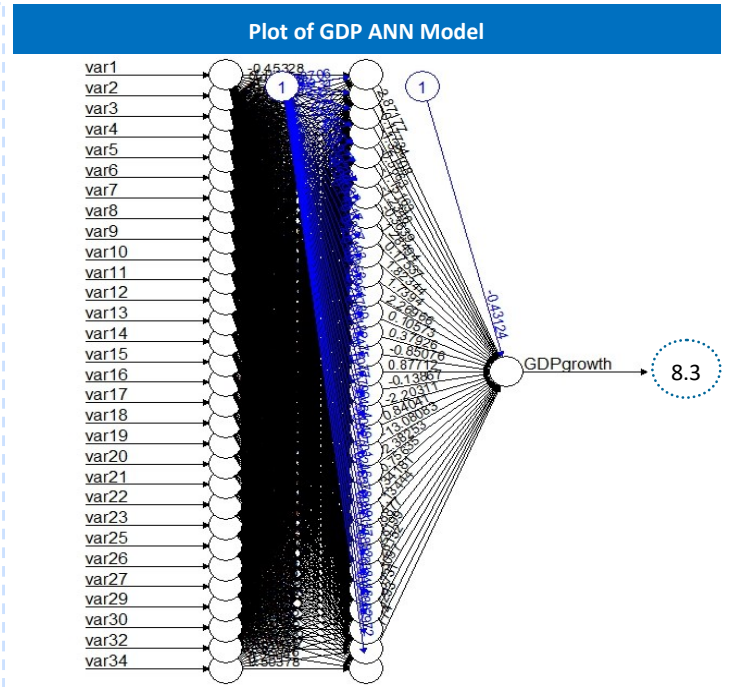
Source: SBI Research

SBI's Estimated GDP vs NSO Actual GDP: Quarterly Out-Sample Forecasts of Model
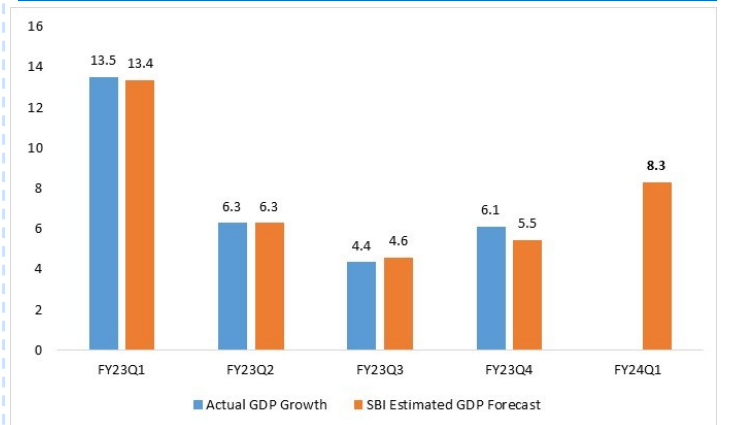
Source: SBI Research

Corporate Results Key Parameters						
Qtr.	Rs in crore			EBIDTA	Growth % (YoY)		
	Net Sales	EBIDTA	PAT	Margin %	Net Sales	EBIDTA	PAT
Q1FY21	847287	88668	971	10.46%			
Q2FY21	1184166	199323	112157	16.83%			
Q3FY21	1374044	234382	126936	17.06%	-1	35	58
Q4FY21	1572680	256828	162508	16.33%	19	289	916
Q1FY22	1399820	247137	127880	17.65%	65	179	13063
Q2FY22	1632594	269390	175014	16.50%	38	35	56
Q3FY22	1808870	275784	162656	15.25%	32	18	28
Q4FY22	2046203	292821	199703	14.31%	26	7	15
Q1FY23	2199295	277100	151011	12.60%	51	7	11
Q2FY23	2156660	235292	137116	10.91%	28	-14	-23
Q3FY23	2152011	257099	139738	11.95%	15	-9	-16
Q4FY23	2229585	291331	193157	13.07%	9	-1	-3
Q1FY24	2151039	340062	200978	15.81%	-2	23	33
Source: SBI Research; Cline; around 3000 listed entities ex BFSI							

♦ Further, it is pertinent to mention that corporate margin, which was under pressure for last few quarters, shown sign of improvement since Q4FY23. **EBIDTA margin, on aggregate basis of more than 3000 companies, improved by 274 bps to 15.81% in Q1FY24 as compared to 13.07% in Q4FY23 and 12.60% in Q1FY23, contributed by low input prices.**

CREDIT GROWTH CONTINUED TO GROW IN DOUBLE DIGIT, WITH A STRONG BANKING INDUSTRY

♦ Credit growth continued to grow in double digits and has become broad based across sectors. ASCB's credit growth (y-o-y) has been accelerating since early 2022. In FY24 (up to 28 July), ASCB's Deposits grew by 12.9% (last year 9.2%), and credit grew by 19.7% (last year: 14.5%).

♦ If we exclude HDFC Ltd Deposits/Credit and, then ASCBs deposits YoY growth would be 12.0% compared to actual growth rate of 12.9% (last year: 9.2%) and credit growth would be 14.7% compared to actual 19.7% (last year 14.5%)

♦ The growth in incremental deposits growth has almost doubled at Rs 11.3 lakh crore, compared to last year incremental growth of Rs 5.0 lakh crore, which is due to the Rs 2.73 lakh crore received through Rs 2000 banknotes and Rs 1.5 lakh crore from HDFC ltd.

♦ Despite rising interest rates, the overall economic growth led to higher credit demand leading to banks reporting a robust rise in advances. Both the PSBs and private sector banks logged in equal pace of loan growth during Q1FY24.

♦ Asset quality of PSBs has improved significantly with gross NPAs declined significantly. Strengthened by high capital adequacy of 15.53% CRAR (comparable to major economies of the world), clean balance sheets supported by a healthy provision coverage (90.68%), and improved resilience, PSBs are well positioned to support the credit needs of the productive sectors of the growing economy.

♦ During FY23, PSBs earned a record aggregate net profit of around ₹1.05 lakh crore, almost triple from net profits earned in FY14. In Q1FY24, PSBs declared net profit of Rs 34,418 crore.

♦ To conclude, the banks in India (especially PSBs) are having strong financial health and strongly comfortably placed to withstand any macroeconomic shock.

Key Banking Parameters													
Banks	Deposits	Advances	Profit (Rs crore)		GNPA			NIM			CRAR		
	YoY%	YoY%	Q1 FY24	YoY%	Q1 FY23	Q4 FY23	Q1 FY24	Q1 FY23	Q4 FY23	Q1 FY24	Q1 FY23	Q4 FY23	Q1 FY24
SBI	12.0	13.9	16884	178.2	3.9	2.8	2.8	3.0	3.6	3.3	13.4	14.7	14.6
Punjab National Bank	14.2	14.6	1255	307.0	11.3	8.7	7.7	2.8	3.2	3.1	14.8	15.5	15.5
Bank of India	8.7	8.5	1551	176.5	9.3	7.3	6.7	2.6	3.2	3.0	15.6	16.3	15.6
Bank of Baroda	16.2	18.0	4070	87.7	6.3	3.8	3.5	3.0	3.5	3.3	15.5	16.2	15.8
Canara Bank	6.6	13.3	3535	74.8	7.0	5.4	5.2	2.8	3.0	3.1	14.9	16.7	16.2
Union Bank of India	13.7	12.3	3236	107.7	10.2	7.5	7.3	3.0	3.1	3.1	14.4	16.0	16.0
Indian Overseas Bank	1.7	16.9	500	27.5	9.1	7.4	7.1	2.5	3.2	3.2	14.8	16.1	16.6
Indian Bank	6.4	12.7	1709	40.8	8.1	6.0	5.5	3.1	3.6	3.6	16.5	16.5	15.8
Central Bank of India	6.1	13.0	418	78.2	14.9	8.4	5.0	2.9	3.6	3.6	13.3	14.1	14.4
UCO Bank	10.8	25.1	223	80.8	7.4	4.8	4.5	2.9	3.1	3.0	14.1	16.5	16.9
Bank of Maharashtra	24.7	25.0	882	95.2	3.7	2.5	2.3	3.3	3.8	3.9	16.2	18.1	18.1
Punjab & Sind bank	12.5	10.4	153	-25.4	11.3	7.0	6.8	2.9	2.9	2.6	16.8	17.1	17.2
ICICI Bank	17.9	18.1	9648	39.7	2.1	1.7	1.7	4.0	4.9	4.8	18.0	18.3	16.7
HDFC Bank	19.2	15.8	11952	30.0	1.3	1.1	1.2	4.0	4.3	4.3	17.5	19.3	18.9
Axis Bank	17.2	22.5	5797	40.5	2.8	2.0	2.0	3.6	4.2	4.1	17.3	17.6	17.1
Kotak Mahindra Bank	22.0	17.3	3452	66.7	2.2	1.8	1.8	4.9	5.8	5.6	22.2	21.8	21.1
IndusInd Bank	14.6	21.5	2124	30.2	2.4	2.0	1.9	4.2	4.3	4.3	18.1	17.9	18.4
ASCB	12.9	16.2	-		-	-	3.9	-	3.7	3.3	-	17.1	-
Source: SBI Research													

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