SBI ECOWRAP

भारतीय स्टेट बैंक
STATE BANK OF INDIA

'Be the Bank of Choice for a Transforming India'

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Q4FY18 GDP MIGHT TOP 7.5%, EVEN AS EUROZONE IN CHAOS

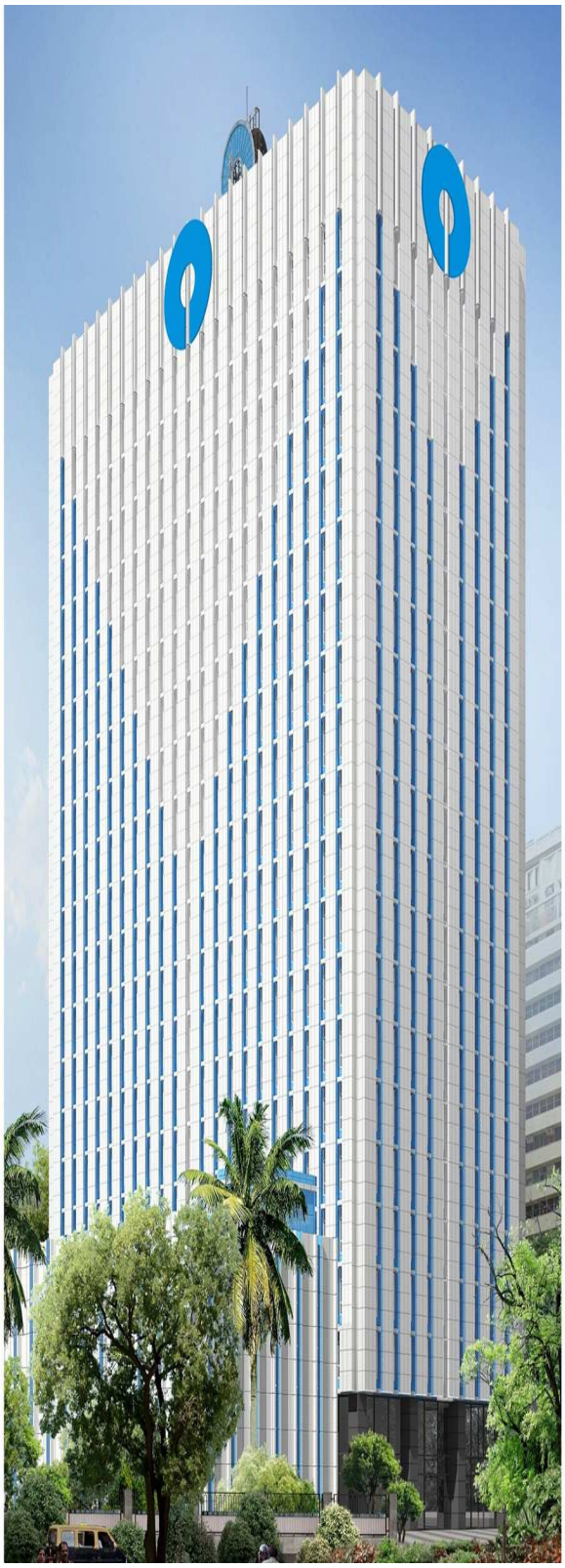
GDP growth for Q4 and FY18 is likely to spring a positive surprise. We expect GDP growth for Q4FY18 would be around 7.6% and subsequently the FY18 growth would be at 6.7%.

We expect 9.0% growth in Manufacturing GVA in Q4 due to smart growth in Corporate GVA as both of these are strongly positively correlated. Corporate GVA which decelerated since Q3 FY17 rebounded in Q2 FY18 and exhibited positive growth of 16.1% in Q4 Agriculture sector will post a growth rate in excess of CSO projections with a better foodgrain production estimates. We also believe Service sector growth will hold up in excess of 8%.

Our Composite Leading Indicator (CLI) Index (a basket of 18 leading indicators) to find out the early signals of turning-points in economic activity reveal a sharp jump in Q4. Our estimate indicate that the CLI index is moving in an upward direction in Q4 of FY18 signaling that the Economic activity is picking up.

Meanwhile, the yearly SBI Composite Index for May'18 declined to 52.1 (Low Growth), from 54.1 (Moderate Growth) in Apr'18. While, the M-o-M index increased to 51.8 (Low Growth) in May'18, from 45.6 (Moderate Decline) in Apr'18.

However, a higher than expected GDP growth for India should not propel us into a false delusion of an impending rate hike cycle. Italy's bond market suffered a steep sell-off as concerns about political turmoil in the Eurozone's third-biggest economy intensified. The yield on two-year Italian debt was up more than 1.5% points from Monday's close. This is also perhaps a reason of oil going off the boil in the last few days.



GDP GROWTH IS EXPECTED TO BE 7.6% IN Q4

Sectoral Growth Estimates CSO vs SBI (%)					
	Q4 FY18		FY18		Explanation for SBI projections
	CSO	SBI	CSO	SBI	
GDP	7.1	7.6	6.6	6.7	
GVA	6.9	7.5	6.4	6.5	-
Agriculture	1.9	3.5	3.0	3.3	Higher food production as per 3rd advance estimates
Industry	6.6	7.9	4.8	5.2	Pick-up in corporate GVA of non-finance listed companies
Services	8.7	8.4	8.3	8.2	Boost in trade and transport and real estate sector

Source: SBI Research, CSO

- GDP growth for Q4 and FY18 is likely to spring a positive surprise. We expected GDP growth for Q4FY18 would be around 7.6% and subsequently the FY18 growth would be at 6.7%.
- We expect 9.0% growth in Manufacturing GVA in Q4 due to smart growth in Corporate GVA (defined as sum of PBIDT and Wages/Salaries) as both of these are strongly positively correlated. Corporate GVA which decelerated since Q3 FY17 rebounded in Q2 FY18 and exhibited positive growth of 16.1% in Q4 (based on the data of 1482 non-financial companies).
- Construction sector growth will do well as cement and steel consumption seems to have picked up smartly.
- We also believe Service sector growth will hold up. In particular, Trade, Transport sub-segment will be helped by the sale of commercial vehicles jumping by 16%. Finance sub segment will do well because of a modest pick up in real estate. However, Public Administration sub segment will post a lower growth because of compression of Government expenditure in Q4.
- Agriculture sector will post a growth rate in excess of CSO projections with a better foodgrain production estimates.

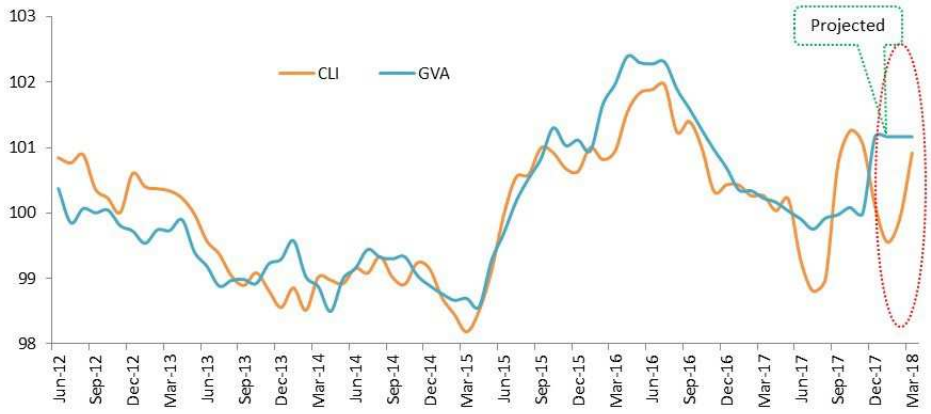
Corporate GVA			
Qtr ended	Corporate GVA (% YoY)	Manufacturing GVA (% YoY)	No. of Listed Companies
Q4: FY16	1.9	12.7	3694
Q1: FY17	9.1	9.9	3653
Q2: FY17	13.1	7.7	3604
Q3: FY17	16.9	8.1	3598
Q4: FY17	7.1	5.3	3510
Q1: FY18	-8.4	-1.8	2211
Q2: FY18	3.8	6.9	2795
Q3: FY18	11.2	8.1	3423
Q4: FY18	16.1	9.0	1482*

Source: SBI Research, *listed companies excluding Banks & Finance Companies whose results are declared till date.

COMPOSITE LEADING INDICATOR AND GVA

- Our Composite Leading Indicator (CLI) Index (a basket of 18 leading indicators) to find out the early signals of turning-points in economic activity reveal a sharp jump in Q4. This is composed from a set of selected economic indicators whose composite provides a robust signal of future turning points.
- We have extrapolated GVA from our CLI. We have removed the seasonality and long term trend from the data as the presence of a trend in economic activity can distort evaluations of cyclical events. Removing these trends (de-trending) provides a better measure of underlying movements in the business cycle.
- Our estimation shows that the CLI index is moving in an upward direction in Q4 of FY18 which further signaling that the Economic activity is picking up.

SBI's Composite Leading Indicator (CLI) vs GVA

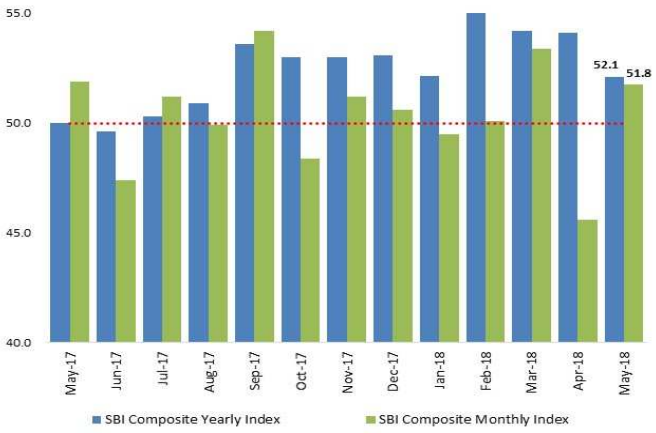


Source: SBI Research

SBI COMPOSITE INDEX: MAY 2018

- The yearly SBI Composite Index for May'18 declined to 52.1 (Low Growth), from 54.1 (Moderate Growth) in Apr'18. While, the M-o-M index increased to 51.8 (Low Growth) in May'18, from 45.6 (Moderate Decline) in Apr'18.
- With the robust growth in the SBI Composite Index, we believe IIP Manufacturing should continue to be buoyant in April'18 (6%) but may decline in May 2018 to around 4%.

SBI Yearly and Monthly Composite Index Trend



Source: SBI Research

GDP GROWTH CORPORATE RESULTS - TOP 5 PERFORMING SECTORS IN FINANCIAL YEAR 2018

- About 626 companies (Total Income more than Rs 100 Cr in FY18) has reported results for full Financial Year ending 31st March 2018. The top 10 sectors ranked in order of overall performance, exhibited growth on all fronts viz., Total Income, PBIDT and adj. PAT are stated here-below. In Capital Goods (Non-Electrical Equipment), HEG Ltd and Graphite India Ltd were top performers. In Alcohol Beverages, Pioneer Distilleries Ltd and Som Distilleries & Breweries Ltd performed well.
- Sectors that turned around from negative PAT in FY17 to positive PAT in FY18 came as a surprise. Construction and Power Generation & Distribution appear to be trending positive, going by results reported. Telecom Services reported decline in PAT in FY18 as compared to profit in FY17. Idea Cellular Ltd reported a major loss of Rs.4780 Cr in FY18 (- Rs 831 Cr in FY17).

Top 5 Performing Sectors in Financial Year 2018

Sector (All Rs. In Crs)	Total Income FY2018	PBIDT FY2018	Adj. PAT FY2018	Total Income FY2017	PBIDT FY2017	Adj. PAT FY2017
Capital Goods - Non Electrical Equipment	26639.35	5682.65	3046.18	22011.42	2779.79	1193.33
Alcoholic Beverages	2942.1	635.16	291.6	2439.54	345.57	107.73
Stock/ Commodity Brokers	493.45	136.79	77.06	391.65	92.42	50.45
Cables	7525.3	1068.8	386.55	5989.93	819.35	179.75
Construction	16215.51	3728.86	235.73	14220.23	1297.62	-3551.67

Source: C-Line; excludes banks & Financial Institutions

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ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of "tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis".

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management , corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

DISCLAIMER

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