SBI ECOWRAP

भारतीय स्टेट बैंक
STATE BANK OF INDIA

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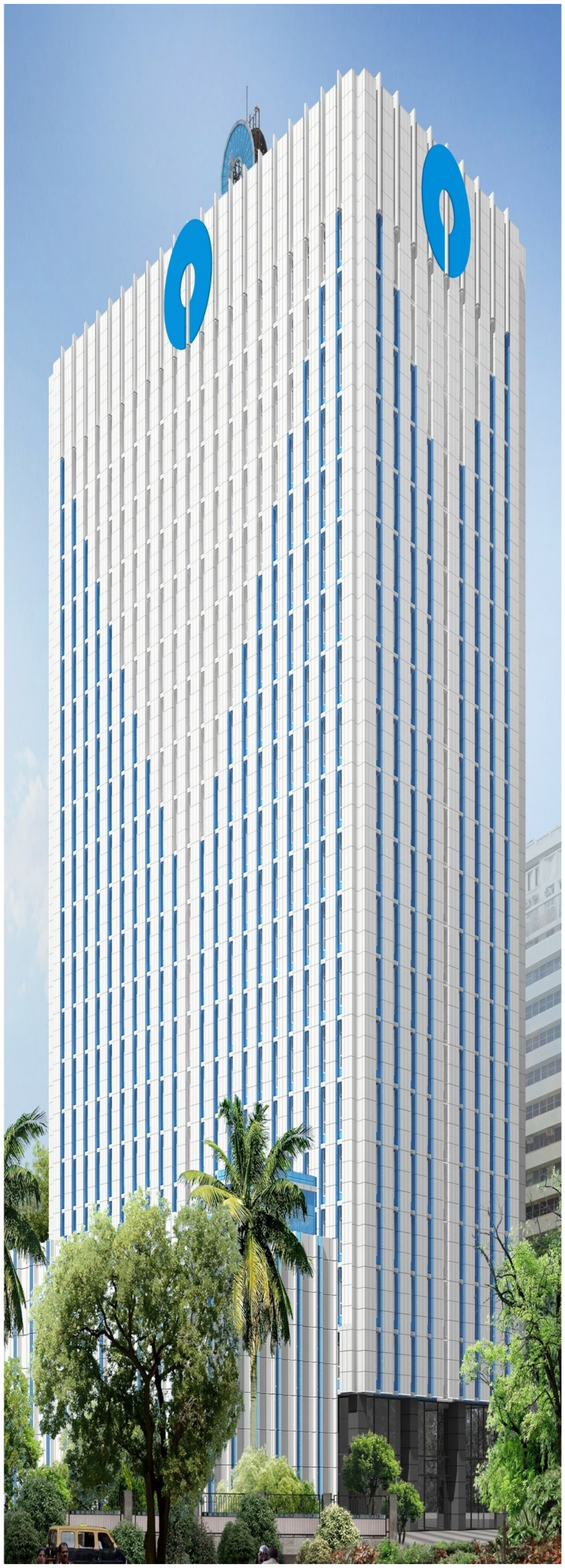
GDP IN Q3 MIGHT BE AT 6.7%, FY19 ESTIMATES AT 7.2% COULD BE A DEFLATOR ADJUSTMENT : GST COLLECTION SET TO SLIP TO ~Rs 95,500 CRORES in FEB'19



The yearly SBI Composite Index for Feb '19 increases marginally to 50.60 (Low Growth) in Feb'18. While, the monthly SBI Composite index has declined to 11-month low of 46.10 in Jan'19. Thus, IIP numbers for Feb'19 will continue to stay lower at 2%-3%. Meanwhile, our Composite Leading Indicator (CLI) which has a one-quarter lead over non-agricultural GDP growth, is signaling a moderation in economic activity for Q3 FY19. The CLI Index (a basket of 32 leading indicators) is based on monthly data which shows the early signals of turning-points in economic activity. Based on the Leading indicators yoy performance, we are expecting the GDP growth to be around 6.6%-6.7% in Q3.

Interestingly, the CSO has recently revised the GDP growth for FY18 from 6.7% earlier to 7.2%. At this rate, FY19 growth rate would have been at 5.9% (earlier 7.2%). We however believe, that the GDP deflator which is presently at 4.1%, could be revised downwards by at least 50 bps, thus pushing the GDP close to 7.2% in FY19.

We also expect that the total GST collection for Feb'19 will be at Rs 95,500 crore, which is significantly lower than previous month's collection of Rs 1.05 lakh crore. This indicates GST numbers are still stabilizing after the spate of recent cuts and puts the fisc under pressure.

Meanwhile, out of the 4096 corporates (including Banks, Finance and Refineries) that declared results for Q3FY19 results (standalone), if we exclude results of three companies ,the bottom line growth achieved by listed Indian Corporates in Q3FY19 is only 0.82%.

It is also worthwhile to note that, while the NBFC sector is passing through a rough patch, state governments may avail this opportunity to set up own NBFCs for prudent fund management of surplus funds emanating from the state. Recently, as per reports, the Haryana State Government applied to RBI for NBFC approval. As such, the Government recently incorporated Haryana State Financial Services Ltd with an authorised capital of Rs 10 cr and a paid-up capital of Rs 2 cr. However all this has not deterred sound NBFCs to tap the corporate bond market.

SBI YEARLY COMPOSITE INDEX AT 50.6 (YEARLY) IN FEB'19

- The yearly SBI Composite Index for Feb'19 increases marginally to 50.60 (Low Growth) in Feb'18 from 50.6 in Jan'18 from 50.6 in Jan'18. While, the monthly SBI Composite index remained volatile and declined to 11-month low of 46.10 (Low Decline) in Feb'19 from 52.8 (Moderate Growth) in Jan'19.
- The SBI Composite Index, a leading indicator for manufacturing activities in the Indian Economy aims to foresee the periods of contraction and expansion. The Composite Index has mainly two indices i.e. SBI Monthly Composite Index and SBI Yearly Composite Index.
- With the decline in growth in the SBI Composite Index, we believe IIP Manufacturing growth may grow at 1.5% and IIP may at 2.5% in Feb'19.

How to Read SBI Composite Index

Index Value	Read as
Less than 42	Large Decline
42 to 46	Moderate Decline
46 to 50	Low Decline
50 to 52	Low Growth
52 to 55	Moderate Growth
55 & Above	High Growth

Source: SBI Research

Chart 1: SBI Yearly and Monthly Composite Index Trend

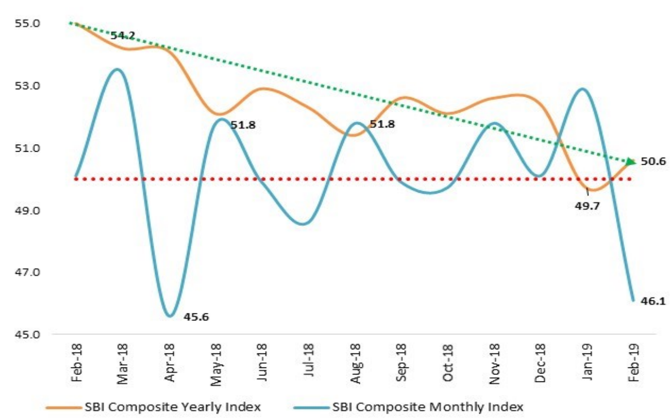
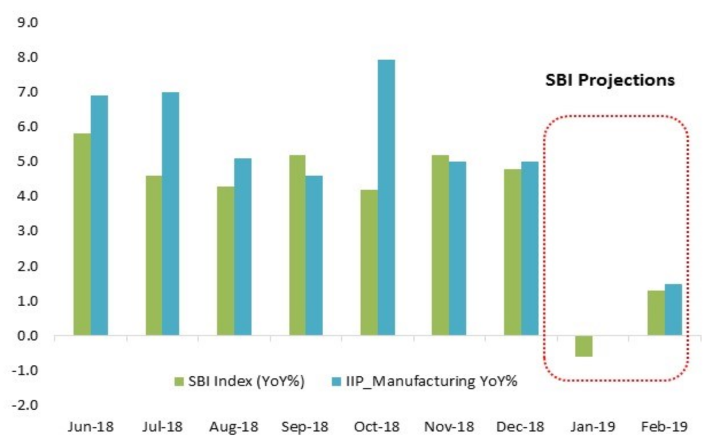


Chart 2: SBI Yearly Index (YoY %) & IIP Manufacturing (YoY %)

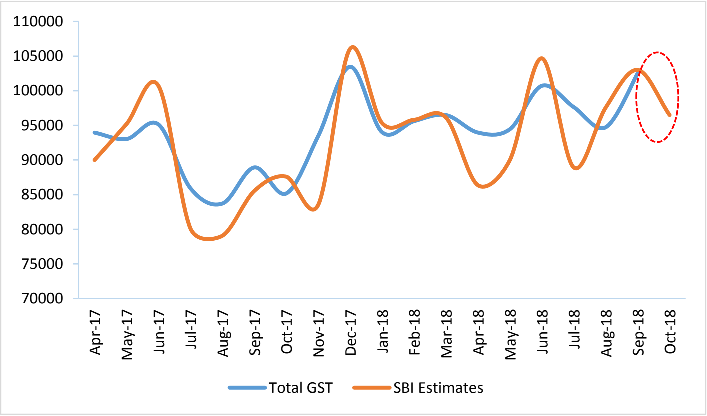


Source: SBI Research

GST COLLECTION IN FEB'19 WILL BE LESS THAN RS 1LAKH CRORE

- SBI internal estimate suggest that the total GST collection for Union Government for Feb'19 will be at Rs 95,500 crore, which is significantly lower than previous month collection of Rs 1.05 lakh crore. This anticipated decline in tax collection could be attributed to the GST Council decision to lower of 23 items in 18-28% bracket which was held on 22nd Dec'18.
- Besides, the GST Council had also exempted few goods and services from levy of GST which could further dampen the collection figures.

Chart 3: SBI Projection vis-a vis Total GST Collection



Source: SBI Research, PIB

COMPOSITE LEADING INDICATOR IS SHOWING A DECLINING TREND FOR Q3

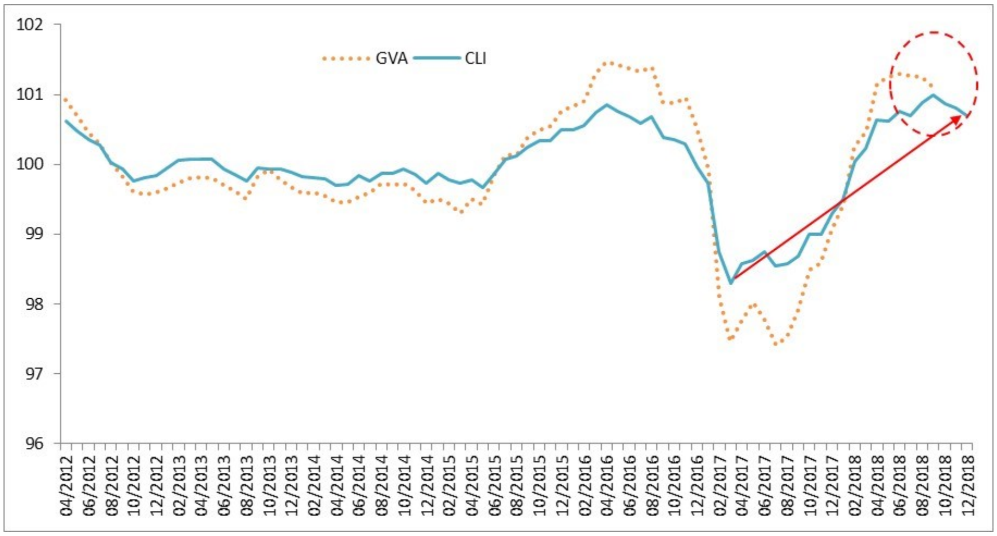
- Our Composite Leading Indicator (CLI) which has a one-quarter lead over non-agricultural GDP growth, is signaling a moderation in economic activity for Q3 FY19. The CLI Index (a basket of 32 leading indicators) is based on monthly data which shows the early signals of turning-points in economic activity. Based on the Leading indicators yoy performance, we are expecting the GDP growth to be around 6.6%-6.7%.
- Earlier, the CSO has revised the GDP growth for FY17 by 110 basis points from 7.1% earlier to 8.2% and for FY18 from 6.7% earlier to 7.2%. At this rate, FY19 growth rate would now stand at 5.9% (FY19 estimates at 7.2%). But our estimate suggest, this figure will be revised upwards through adjusting deflator. Historical trend suggests, since FY13 to FY17, CPI on an average has been 200bps higher than GDP deflator and WPI on an average 250 bps lower than GDP deflator. However, in past two years this trend has reversed which is quite puzzling in nature.
- We believe, if the GDP deflator which is presently at 4.1%, could be revised downwards by 50 bps, then GDP growth will be closer to CSO projections at 7.2%. In some previous instances, CSO had also revised the deflator estimates to pull down/up the growth rate.

Movement of yearly CPI, WPI vis a-vis GDP Deflator

Year	CPI	WPI	GDP Deflator	CPI- GDP Deflator	WPI- GDP Deflator
FY13	9.90	-	7.93	1.96	-
FY14	9.43	5.19	6.19	3.25	-0.99
FY15	5.97	1.31	3.33	2.64	-2.02
FY16	4.91	-3.63	2.28	2.63	-5.91
FY17	4.54	1.76	3.12	1.41	-1.37
FY18	3.58	2.92	3.84	-0.25	-0.91
FY19 (upto Jan'19)	3.58	4.58	4.11	-0.53	0.46

- For e.g in the first revised estimate for 2017-18, CSO estimates revealed there was a significant change in deflators across sectors. The most interesting aspect was the jump in agricultural sector deflator in FY17, which pushed up the nominal agri growth to as much as 12.1 % in FY17. Similarly, nominal growth in Industry has continued to be buoyant till FY19, but primarily driven more by deflator adjustment.

Chart 4: CLI vis-a-vis GVA



Source: SBI Research

QUARTERLY TREND IN LEADING INDICATORS

- Domestic passenger vehicle sales growth (yoy),which is an indicator of urban demand, has slowed down for last two quarters and sale of commercial vehicle also slows down significantly in Q3'FY19. Domestic air passenger traffic – another indicator of urban demand – has also shown a declining trend in Nov'18. Cement production which has been an indicator of construction activity has slightly moderated to 13% from its previous high of 18.7% (y-o-y basis) in Q4'FY18. Besides, IIP Manufacturing activity is continuously in a declining mode for previous two quarters. This further reveals that both consumption and investment demand has been slowing down in the economy.
- External sector indicators have deteriorated in Q3, with weak growth in exports and core (non-oil, gold) imports and growth in foreign tourist arrivals –another proxy for external demand–also slowed to 1.7% in Q3 from 4.2% in Q2 of FY19.
- **If we look at the % of indicators showing acceleration to total, indicators have come down from 69% to 61% and the latest data available on some indicators for Jan'19 is also showing that the growth path is not looking bright for Q4.**

% y-o-y, 3mma	FY17				FY18				FY19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Jan
Consumption												
Domestic Passenger Vehicle	6.7	17.8	1.7	5.8	4.2	13.4	6.4	13.2	21.6	-3.6	-0.8	-1.9
Petroleum: Consumption: Diesel	4.7	1.1	5.6	-3.8	5.9	7.2	4.8	9.6	3.6	2.8	1.9	6.2
Telecommunication Service: Number of Subscribers: Cellular: All India	8.2	7.6	7.1	19.2	22.1	21.7	22.3	11.1	7.4	7.7	5.1	
Consumer credit	21.2	18.9	15.2	13.8	14.1	15.9	17.4	19.4	18.5	16.7	17.0	
Rural agri wages	4.4	5.3	8.1	8.3	8.2	7.3	4.0	2.1	2.5	3.2		
Two Wheelers	14.4	20.5	-6.4	-2.4	7.8	12.5	20.8	25.2	16.1	5.1	7.4	-0.1
Tractor sales	14.8	24.7	13.0	12.5	9.8	33.0	14.1	43.0	25.2	5.5	21.1	2.4
Investment												
Freight Traffic: Net Tonne Kilometres	-8.6	-8.0	-4.6	-0.2	3.4	5.0	8.6	7.4	8.3	7.0	5.7	4.2
Capital goods	12.9	0.6	-1.8	2.1	-4.2	4.9	7.4	8.6	8.6	6.5	6.6	
Government capex	-12.5	80.2	-40.5	45.7	43.4	-7.7	-68.6	21.8	27.1	5.8	-35.2	
IP: Infrastructure and construction	4.9	4.8	5.6	0.6	1.9	2.5	8.7	9.8	8.5	8.9	8.0	
External Sector												
Foreign Tourist Arrivals	6.5	12.6	9.4	8.3	20.2	11.6	14.9	12.5	1.5	4.2	1.7	
Export value	-2.0	-4.2	6.0	17.3	9.7	16.2	14.9	6.2	14.6	11.0	6.3	1.6
Imports (ex-oil, gold) value	-7.4	-4.0	7.4	11.8	26.9	18.8	16.1	15.0	8.5	10.8	1.4	-2.8
Import value	-14.3	-11.2	8.1	27.6	35.7	19.7	18.0	14.6	12.8	21.4	6.5	0.9
Industry												
IIP	7.1	4.5	3.9	3.0	1.9	3.3	5.9	6.3	5.2	5.3	3.7	
Manufcturing PMI	51.0	52.2	52.1	51.2	51.7	50.1	52.5	51.8	52.0	52.1	53.4	53.7
Corporate (industry) credit	2.5	0.4	-3.1	-4.1	-1.5	-0.3	1.0	0.9	1.1	1.5	4.0	
Coal Output	5.4	-4.1	2.6	6.9	-4.4	8.8	1.7	4.7	12.9	6.2	5.3	
Steel output	8.9	11.0	12.9	10.3	6.3	5.1	7.8	3.8	2.4	4.7	7.3	
Cement Output	5.8	3.5	-0.7	-12.0	-3.3	0.6	11.1	18.7	16.4	12.5	13.0	
Electricity Generation	10.2	3.1	6.3	4.2	5.2	6.1	3.8	6.0	4.9	7.5	6.7	
Services												
PMI Sevices	51.7	52.9	49.3	50.2	51.8	48.0	50.4	49.9	51.2	52.2	53.0	53.0
LCVs	10.8	10.7	-0.9	2.0	-0.9	12.0	27.0	40.6	38.5	27.0	12.1	3.5
MHCVs	14.9	-9.3	2.3	5.2	-28.7	17.1	39.0	17.6	85.3	27.8	-4.3	-10.5
Railway Passenger Traffic	0.0	0.6	1.5	1.0	2.3	-0.6	0.6	1.4	0.0	3.4	2.8	3.2
Passenger Traffic: All Airports	17.3	21.1	19.4	15.8	15.5	13.5	16.6	20.3	17.2	16.1	10.6	
Cargo Traffic: All Airports	6.9	8.4	11.0	12.1	16.2	15.3	12.9	7.7	6.6	7.3	7.1	
Deposits	9.5	10.0	12.7	13.6	10.6	10.4	6.4	5.8	7.4	8.7	9.0	9.5
Bank Credit	9.6	9.8	7.3	5.4	4.5	6.6	8.1	11.6	11.8	13.1	14.7	15.1
Other Indicators												
Direct Taxes	31.5	0.5	46.9	15.4	30.2	11.8	12.2	26.7	-6.1	34.1	12.7	
OECD CLI*	99.5	99.2	98.9	98.9	99.1	99.4	99.9	100.3	100.6	100.7	100.7	
% of indicators showing acceleration	56	47	44	44	53	63	69	75	69	69	61	47
Green shading suggests the fastest growth since 2014, while Red suggests the slowest growth since 2014												

CORPORATE PERFORMANCE IN Q3

- Out of the 4096 corporates (including Banks, Finance and Refineries) that declared results for Q3FY19 results (standalone), we saw a top line growth of 16% while the bottom-line grew at 13%. It is pertinent to mention that if we exclude results of three companies i.e. Vedanta, Coal India and ONGC (the trio) the bottom line growth achieved by listed Indian Corporates in Q3FY19 is only 0.82%.
- Sans Bank, Finance and Refineries, as also the trio, top line growth recorded 13% while bottom line grew at 7% in the Q3FY19 as compared to Q3FY18.
- Sectors reported growth in key parameters includes Paper, Auto Ancillary, Steel etc. and sectors reporting negative growth includes Sugar, Textile, Pharma, Construction etc. Some top sectors are produced here-below for ready reference.

Sectors reported positive growth in Key Parameters in Q3FY19 vis-a-vis Q3FY18				
Sector	No of Companies	Net Sale	PBIDT	Adj PAT
Steel	137	11	40	210
Paper	55	5	34	127
Capital Goods-Non Electrical Equipment	119	25	45	57
Auto Ancillaries	100	10	14	29
Packaging	62	12	9	20
Chemicals	164	15	0.3	11
Source: Cline; SBI Research				

Sectors reported negative growth in Key Parameters in Q3FY19 vis-a-vis Q3FY18				
Sector	No of Companies	Net Sale	PBIDT	Adj PAT
Capital Goods - Electrical Equipment	66	8	-3	-7
Non Ferrous Metals	39	4	-18	-8
Tyres	12	10	-15	-24
Agro Chemicals	23	14	-4	-30
Pharmaceuticals	160	12	-13	-39
Fertilizers	24	7	-24	-48
Consumer Durables	58	22	124	-70
Sugar	36	-6	-163	-82
Textiles	323	5	4353	-83
Construction	105	14	-53	-650
Source: Cline; SBI Research				

- It is worthwhile to note that while the NBFC sector is passing through a rough patch, state governments may avail this opportunity to set up own NBFCs for prudent fund management of surplus funds emanating from the state. Recently, as per reports, the Haryana State Government recently applied to RBI for NBFC approval. As such, the Government recently incorporated Haryana State Financial Services Ltd with an authorised capital of Rs 10 cr and a paid-up capital of Rs 2 cr. The NBFC is expected to be operational in FY20. Currently, state departments or public sector enterprises park their surplus funds with different banks. After the formation of such NBFC, the entire fund management may be managed centrally. The NBFC will provide better deposit rates to the state government entities and lend to state municipal bodies and / or wholly owned or semi owned state government entities.
- In terms of primary issuance, NBFCs corporate bond raised during Dec'18 quarter declined by 35% to Rs 46,737 cr. from Rs 71905 cr. during Sept'18 quarter. However, this has not deterred sound NBFCs to tap the corporate bond market. In Non-PSU NBFC segment, primary issuances last week saw HDB Financial Services Ltd, rated AAA, raised Rs 250 cr at a coupon of 8.71%. L&T Infra Debt Fund Ltd, rated AAA, also mopped up Rs. 200 cr at a coupon of 9.22%. As per public issue of corporate NCDs, Shriram Transport Finance Finance Company Ltd, raised Rs 537 cr out of Rs 700 cr base issue size. The issue closed on 31st January 2019 with lower subscription. We have also seen public fixed deposits being floated by NBFCs to augment its resource raising profile. In Commercial Paper market, LIC Housing Finance Ltd raised Rs 500 cr on 21st Feb 2019 at a coupon of 7.43%. GIC Housing also raised Rs 200 cr at 7.65% on 21st February 2019.

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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!

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