Ecowrap

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GDP AND GVA WILL DIVERGE MORE: GVA GROWTH AT 4.3% COULD BE A BETTER PROXY GOING FORWARD

The GDP numbers released today are aligned with the market expectations. GDP for Q2 FY20 has registered a growth of only 4.5%, the lowest. since Q1FY14. The Gross Value Added at Basic Prices also decelerated to 4.3% in Q2 compared to 4.9% growth in Q1. Excluding 'Public Administration, Defence and Other Services' the GVA growth would have been merely 2.8%. Core GVA declined to 3.4% in Q2FY20, the lowest since Q1FY13. Beneath the headline numbers, the divergence between GDP and GVA reflects stark realities. The gap between GDP and GVA reflects indirect taxes net of subsides. A higher gap could potentially imply that indirect taxes are growing, but government transfer payments like subsidies are not growing because of fiscal compulsions and this could act as a drag on growth. For example, the net indirect taxes for Q2 FY20 are at Rs 4.54 lakh crore. Meanwhile the GST Collections for Q2 FY20 are at Rs 2.92 lakh crore. This means that the subsidy expenditure for Q2 FY20 has not been very high and as per CGA data the major subsidies in Q1 FY20 at Rs 1.52 lakh crore has declined significantly to Rs 0.59 lakh crore in Q2FY20. In the coming days GVA-GDP divergence could even be higher, if transfer payments of Government remain muted and under such a circumstance GVA would be a better proxy for demand.

On the expenditure side, with exception of government consumption, there is no component that has not decelerated in H1 FY20. The H1 data which suppressed the seasonal fluctuations if any in first two quarters, shows secular drop in demand at current prices. The capital formation had an alarming drop from H1 FY19 growth of 16.7% to 4% in H1 FY20 (1% in Q2FY20 from 4% in Q1FY20). **PFCE seems to have recovered in Q2FY20, and this in itself is a pleasant surprise. Does this signify the impact of debt financed consumption?** Interestingly, the sectoral data for the month of October 2019, which accounts for about 85% of the total bank credit deployed by 39 SCBs, indicates that credit to Industry and services has declined incrementally by Rs 1.62 lakh crore, while credit to Agri & Allied and Personal loans increased by Rs 1.92 lakh crore.

The mainstay of demand has been the government consumption which increased in both real and nominal terms. The contraction in manufacturing, deceleration in construction and services baring public administration explains the decline in demand. Even the steep decline in imports growth in comparison to exports is indicating a contraction in inter sectoral demand.

Another alarming aspect of demand side is simultaneous deceleration in nominal terms with near stable inflation figure of around 3%. Nominal GDP growth at 6.1% is perhaps the lowest since FY69. This situation is quite anomalous. The precarious situation on the demand side does not augur well for overall economic outlook. The collapse in growth in nominal terms to 6.1% implies tax collections will continue to remain sluggish.

Taking into account the net revenue loss owing to subdued tax collections, the new fiscal deficit taking full year nominal GDP growth of 7.5% comes at around 3.8% (55 bps higher than budgeted). Of this, approximately 15 bps is on account of revenue forgone and the rest 40 bps is due to lower GDP growth.

It still remains to be seen whether we have bottomed out. Going forward, the incremental move up in Q3 will be minimal, while Q4 as of now will largely be a base effect! We expect RBI to cut rates in forthcoming policy by 25 basis points, but the Government must spend and ensure that fiscal pol icy does not act as a drag on economy. A rate cut when consumer leverage is increasing will not help demand and it is only by using fiscal policy as a counter cyclical stabilizer will help.

GDP GROWTH PLUNGED TO 4.5% IN Q2

- GDP numbers released today are perfectly aligned with the market expectations. GDP for Q2 FY20 has registered a growth of only 4.5%, which is way below the year before level of 7.0%. The Gross Value Added (GVA) at Basic Prices also decelerated to 4.3% in Q2 compared to 4.9% growth in Q1.
- The most interesting fact is the multi-year low growth in nominal GDP. During Q2 FY20, nominal GDP grew by merely 6.1%, lowest since 1968-69.
- Agriculture and Allied Activities grew by 2.1% in Q2 (Q1: 2.0%), compared to last year growth of 4.9%. The low growth is owing to the high base of the previous year and the impact of uneven distribution of rainfall. Agri prices after languishing for some time, have shown an uptick as evident from the Agri Deflator which is at 5.2% in Q2 FY20 vis-à-vis –0.7% in Q2 FY19.
- The growth in the Industry segment has gone down to 1.0% in Q2 (2.7% in Q1 FY20) as against the growth of 6.7% in Q2 FY19. Almost all the sub-sectors of industry are contributing to this decline in industry. Mining decelerated to 0.1% in Q2 (Q1: 2.7%) while manufacturing growth declined by 0.1% (Q1: 0.6%). Even the Electricity, Gas, Water Supply & Other Utility Services, which generally registered good growth decelerated sharply in Q2. The growth in Industry has registered a decline due to slowdown in the Automobile segment, Capital goods, Government capex, cement etc.
- In Q2FY20, the services GDP declined to 22-quarter low of 6.2%, compared to 6.9% in Q1FY20 7.3% in Q2FY19, mainly due to decline in Trade, Hotels, Transport, Communication and Broadcasting' to 4.8% in Q2 from 7.1% in Q1 due to the slowdown in automobile sector. 'Financial, Real Estate and Professional Services', which growth at 5.8%. Further, 'Public Administration, Defence and Other Services' grew at a robust pace of 11.6% in Q2 from 8.5% in Q1FY20.

GVA at Basic Price by Economic Activity (%)

Sectors	FY19				FY20	
	Q1	Q2	Q3	Q4	Q1	Q2
Agriculture	**5.1**	**4.9**	**2.8**	**-0.1**	**2.0**	**2.1**
Industry	**9.8**	**6.7**	**7.0**	**4.2**	**2.7**	**1.0**
Mining & quarrying	0.4	-2.2	1.8	4.2	2.7	0.1
Manufacturing	12.1	6.9	6.4	3.1	0.6	-1.0
Electricity, gas, water supply & other utility services	6.7	8.7	8.3	4.3	8.6	3.6
Construction	9.6	8.5	9.7	7.1	5.7	3.3
Services	**7.1**	**7.3**	**7.2**	**8.4**	**6.9**	**6.2**
Trade, hotels, transport, communication & services related to broadcasting	7.8	6.9	6.9	6.0	7.1	4.8
Financial, real estate & professional service	6.5	7.0	7.2	9.5	5.9	5.8
Public administration, defence and Other Services	7.5	8.6	7.5	10.7	8.5	11.6
Total GVA at Basic Price	**7.7**	**6.9**	**6.3**	**5.7**	**4.9**	**4.3**
GDP	**8.0**	**7.0**	**6.6**	**5.8**	**5.0**	**4.5**

Source: CSO & SBI Research

Growth in Sectoral Deflator(%)

Sectors	FY19				FY20	
	Q1	Q2	Q3	Q4	Q1	Q2
Agriculture	**1.6**	**-0.7**	**-0.7**	**3.9**	**5.7**	**5.2**
Industry	**5.4**	**6.2**	**5.6**	**3.1**	**2.0**	**-0.5**
Mining & quarrying	18.3	24.7	18.0	5.3	2.7	-4.6
Manufacturing	3.8	4.4	4.2	2.5	1.4	-0.1
Electricity, gas, water supply & other utility services	5.5	7.4	6.8	4.4	0.0	-1.2
Construction	4.7	5.0	4.5	3.0	2.7	0.9
Services	**5.2**	**5.5**	**4.9**	**3.9**	**2.6**	**2.7**
Trade, hotels, transport, communication & services related to broadcasting	4.9	5.3	4.8	3.1	3.4	1.2
Financial, real estate & professional service	5.2	5.6	5.0	3.5	0.5	0.7
Public administration, defence and Other Services	5.7	5.2	4.8	5.1	5.1	4.9
Total GVA at Basic Price	**4.6**	**4.8**	**3.8**	**3.6**	**2.9**	**1.9**
GDP	**4.3**	**4.7**	**4.1**	**3.4**	**2.8**	**1.5**

Source: CSO & SBI Research

TOTAL FINAL CONSUMPTION EXPENDITURE SURPRISINGLY MOVED UP

- The total final consumption expenditure increased at 6.9% in Q2FY20 against 4.1% in Q1FY20. Both PFCE and GFCE has accelerated during the second quarter and more surprisingly PFCE which largely comprised of household expenditure has shown an improved picture (5.1% in Q2 vis a vis 3.1% in Q1 of FY20) under a slowing GDP growth and declining rural demand.
- GFCE which includes expenditures on Public Administration and Defense Services and individual consumption of goods and services provided to households as social transfers grew at 15.6% in Q2FY20 against, the growth of 8.8% in Q1. This has been nine quarter high since Q1 FY18. We believe, the surge in GFCF could be partly due to RBI transfer of 1.76 lakh crore based on the recommendation of Bimal Jalan Committee which might have propelled Government Expenditure. Though the private final consumption expenditure surprisingly grew by 5.1% in Q2 (despite the fact that almost all the consumption related leading indicator data showed decline) the gross fixed capital formation has decelerated to 22-months low to 1.0% in Q2 FY20.

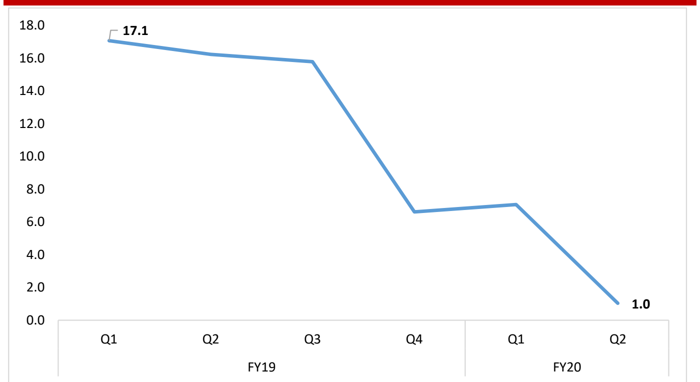
CREDIT GROWTH HAS JUMPED BY RS 1.67 LAKH CRORE BEGINNING SEPTEMBER 2019 TO TILL 08 NOV'19

- In the current FY so far (upto 08 Nov'19), the ASCBs YoY credit growth continued to decline to 8.1%, compared to last year growth of 14.9%, on high base effect. On the contrary, on the YTD basis the ASCBs advances increased by 0.8% (Rs 75,794 crore) in FY20, compared to last year YTD growth of 5.6% (Rs 4.86 lakh crore). A deeper analysis of the ASCBs data indicates that though till the end of Aug'19, ASCBs credit growth was declining, the trend has reversed since Sep'19. and credit growth has jumped by Rs 1.67 lakh crore.
- Additionally, aggregate deposits of ASCBs has increased by 9.9% (YoY), compared to last year growth of 9.1%. On YTD basis, deposits grew by Rs 4.2 lakh crore till 08 Nov in FY20 vis-à-vis Rs 4.0 lakh crore in FY19. The increase in deposits perhaps reflects the flight of deposits from weak banks / cooperative banks to stronger banks in search of safety.
- The sectoral data for the month of October 2019, which accounts about 85% of the total bank credit deployed by 39 SCBs, indicate that credit to Industry and services has declined incrementally by Rs 1.62 lakh crore, while credit to Agri & Allied and Personal loans increased by Rs 1.92 lakh crore. Within industry, credit to 'paper & paper products', 'all engineering' and 'infrastructure' has increased in Octo'19 and credit to all other sectors has declined.
- In October, the jump in retail credit at Rs 33,900 crore, which is around half that of in September, mainly decline in housing loans. Bank lending to NBFC sector has declined in October and the YTD growth of such is highest across all segments at 11.3%.

TAX REVENUE TROUBLE

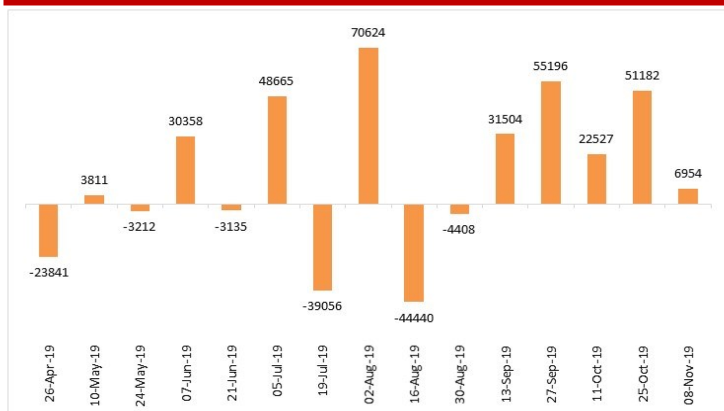
- The Government has estimated that the total revenue foregone for the reduction in corporate tax rate and other relief estimated at Rs 1.45 lakh crore. However, only 58% of the Rs 1.45 lakh crore fiscal bonanza will be revenue loss for the Centre / Rs 84,100 crores. The personal income tax trend shows that the target is still achievable. Therefore, it is expected that there will be no shortfall under this. However, GST Collections till October are not very promising and it is expected that around Rs 83,000 crore will be the overall revenue loss to the Centre. Excise and Custom duty in Apr-Oct'19 have grown negatively as compared to Apr-Oct'18. Thus these segments could also see revenue shortfall. Thus the overall tax revenue shortfall can go upto Rs 2.03 lakh crore, with an upward bias.
- Considering the revenue surplus of Rs 35,000 crore on account of PSU dividend and disinvestment receipts, Rs 25,000 crore from PM Kisan and others and Rs 58000 from RBI, net revenue loss comes at Rs 85,000 crore. The new fiscal deficit taking full year nominal GDP growth of 7.5% comes at 3.8% (50 bps higher than budgeted). Of this, 15 bps is on account of revenue forgone and the rest 42 bps is due to lower GDP growth.

Gross fixed capital formation (% YoY on Current prices)



Source: SBI Research

Fortnight Movement of Credit growth (Rs crore)



Source: SBI Research

Sector-Wise Credit Flow (Rs bn)

Sectors	YTD (Apr-Oct'18)		Monthly Growth (Rs bn)							YTD (Apr-Oct'19)		% YoY	
	Rs bn	%	Apr'19	May'19	Jun'19	Jul'19	Aug'19	Sep'19	Oct'19	Rs bn	%	Oct'18	Oct'19
Agri. & Allied	**295**	**2.9**	**-33**	**-1**	**179**	**-168**	**40**	**148**	**69**	**234**	**2.1**	**8.0**	**7.1**
Industry	**-31**	**-0.1**	**-506**	**-212**	**-20**	**-137**	**-331**	**97**	**119**	**-990**	**-3.4**	**3.7**	**3.4**
MSE (Priority)	-3	0.0	-12	-37	5	-153	9	82	-32	-138	-1.3	12.3	5.8
Infrastructure	640	7.2	88	-228	-154	82	-299	-10	160	-361	-3.4	8.0	6.8
Services	**1576**	**7.7**	**-1006**	**-272**	**-32**	**282**	**373**	**117**	**-94**	**-632**	**-2.6**	**27.4**	**6.5**
NBFCs	662	13.3	-178	1	116	16	436	332	-2	721	11.3	55.6	26.8
Personal Loans	**1301**	**6.8**	**21**	**186**	**124**	**217**	**284**	**519**	**339**	**1690**	**7.6**	**16.8**	**17.2**
Housing (Including Priority)	878	9.0	85	83	101	128	150	384	155	1086	9.4	15.7	19.4
Other Personal Loans	400	7.9	82	85	21	112	104	96	116	617	10.2	22.1	22.0
Gross Bank Credit	**3272**	**4.2**	**-1508**	**-73**	**308**	**140**	**330**	**857**	**529**	**582**	**0.7**	**13.1**	**8.4**

Source: SBI Research

Fiscal Deficit Estimate (Rs crore)

Corporation Tax	85000
Customs and Union Excise Duties	35000
Goods and Services Tax (GST)	83000
Tax Revenue shortfall	**203000**
Surplus on account of PSU Dividend + disinvestment	35000
Revenue Surplus from PM-KISAN & Others	25000
RBI Surplus (over BE) + Economic Surplus	58000
Total Revenue increase	**118000**
Net Revenue loss	**85000**
Fiscal Deficit BE	703760
New Fiscal Deficit	**788760**
New Fiscal Deficit @ 7.5% GDP growth (% of GDP)	**3.86**
Change in Fiscal Deficit due to revenue forgone	**14 bps**
Change in Fiscal Deficit due to decline in GDP growth	**42 bps**

Source: SBI Research

CORPORATE RESULTS

- As per the Q2FY20 results declared by 3905 listed entities, we observe top line contraction of around 2.5%, whereas bottom line and EBIDTA decreased sharply by around 76.8% and 16.5% respectively, courtesy Telecom-Services sector.
- Telecom Sector reported (10 companies) more than Rs 1 lakh crore loss during Q2FY20 on a revenue of Rs 26403 crore as compared to a loss of Rs 43 crore on a revenue of Rs 22742 crore in Q2FY19. Excluding Telecom Service, BFSI and Refineries, 3315 entities reported top line de-growth by 4.94%. Further, though the EBIDTA de-grew by around 1%, PAT reported a growth of around 15%, mainly because of corporate tax cut.
- Some of the sectors which reported all-round growth include Healthcare, Agro Chemicals, Pharmaceuticals etc. whereas sectors which reported negative growth across key parameters include Automobile, Paper, Non-Ferro Metals, Auto Ancillaries etc.
- **New Investment Projects Announcements:** New investment projects announcements, in H1FY20, declined by around 30% to Rs 5.91 lakh crore as compared to the same period previous year, as per Projects Today. Further, if we go by the data of CMIE the it is declined by around 68% to Rs 1.98 lakh crore only.

GDP GROWTH FOR FY20 WILL BE AROUND 5.0%

- GDP growth has slowed down to 4.8% in H1FY20 on account of low automobile sales, deceleration in air traffic movements, flattening of core sector growth and declining Government capex. Considering the present macro environment, we believe the full year FY20 growth would be around 5%, with a marginal recovery in Q3 and in Q4.

Growth in Key Parameters of listed entities Q2FY20 vis-à-vis Q2FY19

Sector	No of Companies	Net Sales	EBIDTA	PAT
All Sectors	3905	-2.53	-16.51	-76.86
Excluding Telecom - Services	3895	-2.77	8.05	16.89
Excluding Telecom - Services, BFSI and Refineries	3315	-4.94	-1.19	15.00

Source: Cline; SBI Research

New Investment Projects Announcements

Year	Amount (Rs Trillion)		Growth Rate (%)	
	CMIE	Projects Today	CMIE	Projects Today
FY15	21.08	16.65		
FY16	21.01	17.28	-0.3	3.8
FY17	17.34	16.72	-17.5	-3.2
FY18	13.23	16.80	-23.7	0.5
FY19	11.96	21.00	-9.6	25.0
H1FY19	6.14	8.38		
H1FY20	1.98	5.91	-67.8	-29.5

Source: CMIE; Projects Today; SBI Research

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