India GDP: Marathon effort ahead

India's Q4FY21 GDP at 1.6% YoY was positive for the 2nd consecutive quarter, GVA grew by 3.7% YoY. While manufacturing and construction activities led the spurt on the production side, government's consumption expenditure and net investments supported growth from the expenditure side. Incorporating today's print, FY21 real GDP and GVA growth are respectively at -7.3% and -6.2%. While all indications pointed to a stable recovery process before the 2nd wave struck, this is now likely to be pushed back to an extent. For FY22 we expect real GDP growth at 8.5%, weaker than our previous estimate of 10.5%.

Highlights

- Q4 FY21 GDP at 1.6%, GVA at 3.7%, led by broad-based growth in industry, agriculture and services sector.
- On the demand side, improvement was primarily driven by government expenditure and net investments.
- FY21 GDP and GVA growth stands at -7.3% and -6.2%, respectively.
- We expect FY22 GVA at 7.4% while real GDP is likely to be at 8.5%.

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Q4FY21 GVA improvement primarily led by Industry segment: Q4 FY21 GVA expanded by 3.7% YoY vs. 1.0% in Q3 FY21. Improvement was broad-based with positive growth recorded in industry, agriculture and services sector. Industry GVA grew by 7.9% YoY in Q4 from 2.9% in Q3, led by growth in value added components of construction (14.5% YoY) followed by electricity (9.1% YoY) and manufacturing (6.9% YoY). However, mining continued to contract (-5.7% YoY) for the eighth consecutive quarter. Agriculture expanded at a slower pace of 3.1% in Q4FY21 vs. 4.5% in Q3FY21. Nevertheless, overall growth in agriculture sector for FY21 is in line with a strong increase in food grain production (as per the 2nd advance estimate) by 2.0% (303.3 mn tonnes in FY21 vs. 297.5 mn in FY20) over the previous year.

After a hiatus of three quarters, services GVA grew by 1.5% YoY in Q4FY21 vs. -1.2% in Q3FY21. Expectedly, services related to trade, hotels, transport and communication continued to contract, albeit at a slower rate (-2.3% YoY). On the other hand, public admin and defence spending (2.3% YoY) along with finance, real estate and professional services (5.4% YoY) expanded. The expansion in public services was expected as Central Government revenue expenditure ex. interest payments increased by a massive 193.1% in Q4FY21 from an expansion of ~23.0% in Q3FY21.

Increase in government expenditure and net investment aid Q4 FY21 GDP recovery: On the demand side, the improvement in Q4FY21 GDP growth to 1.6% YoY vs. +0.5% growth in Q3FY21 was supported by government consumption and net investments. Robust improvement in government expenditure (28.3% YoY) can be attributed to sharp increase in capex spending by both central and state government during the quarter. Gross fixed capital formation (GFCF) grew by a sharp 10.9% YoY in Q4 FY21 from 2.6% in Q3, with its share in overall GDP increasing to 34.3%. Notably, build-up in inventories also continued to increase for the third consecutive quarter with demand gradually inching towards pre-COVID levels in the last quarter of FY21.

On the other hand, domestic private consumption expanded for the first time in FY21 by 2.7% YoY in Q4FY21 from -2.8% in Q3FY21. However, its share in GDP dropped to 55.4% from 58.3%. Meanwhile, net trade remained a drag on overall growth recovery, declining by 3.5% YoY in Q4FY21 vs. +1.5% in Q3FY21.

Growth recovery to be pushed back due to COVID 2nd wave: The implementation of lockdown like restrictions due to the 2nd wave will likely create a break in the normalisation process in the growth that had started as the economy was unlocked after the tapering off of the 1st round of infections. The mobility and consumption indicators have already started recording a sequential drop with state level lockdown restrictions through April and May. Other high frequency indicators such as automobile sales and production, PMI manufacturing and PMI services, E-way bills, power consumption etc. have also moderated sequentially. While the recent decline in the number of daily COVID cases has been encouraging, states are expected to remain cautious and likely to extend lockdown restrictions until at least mid/end June, thereby further deferring consumption recovery.

Speedy vaccination of the population is probably the only way that might enable a bounce back in consumer sentiments. We remain hopeful that starting June supplies will turn out to be better with domestic production as well as imports of vaccines being ramped up. Overall, we expect GDP growth in FY22 to be at 8.5% with risks balanced on either sides.

Table 1: Quarterly details of GVA growth

GVA Growth (% YoY)								
	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21
Agriculture	**3.3**	**3.5**	**3.4**	**6.8**	**3.5**	**3.0**	**4.5**	**3.1**
Industry	**1.7**	**-1.8**	**-2.6**	**-2.2**	**-35.8**	**-3.0**	**2.9**	**7.9**
Mining	-1.3	-5.2	-3.6	-0.9	-17.2	-6.5	-4.4	-5.7
Manufacturing	0.6	-3.0	-2.9	-4.2	-36.0	-1.5	1.7	6.9
Electricity	6.9	1.7	-3.1	2.6	-9.9	2.3	7.3	9.1
Construction	3.7	1.0	-1.3	0.7	-49.5	-7.2	6.5	14.5
Services	**7.2**	**8.2**	**7.0**	**6.4**	**-21.5**	**-11.4**	**-1.2**	**1.5**
Trade, etc.	6.2	6.8	7.0	5.7	-48.1	-16.1	-7.9	-2.3
Finance, etc.	8.8	8.9	5.5	4.9	-5.0	-9.1	6.7	5.4
Public Administration	5.6	8.8	8.9	9.6	-10.2	-9.2	-2.2	2.3
GVA	**5.0**	**4.6**	**3.4**	**3.7**	**-22.4**	**-7.3**	**1.0**	**3.7**

Table 2: Quarterly details of GDP growth

GDP Growth (% YoY)								
	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21
Private Consumption	7.6	6.5	6.4	2.0	-26.2	-11.2	-2.8	2.7
Government Consumption	1.8	9.6	8.9	12.1	12.7	-23.5	-1.0	28.3
Gross Fixed Capital Formation	13.3	3.9	2.4	2.5	-46.6	-8.6	2.6	10.9
Exports	3.0	-1.3	-5.4	-8.8	-21.8	-2.0	-3.5	8.8
(less) Imports	9.4	-1.7	-7.5	-2.7	-40.9	-17.9	-5.0	12.3
GDP	**5.4**	**4.6**	**3.3**	**3.0**	**-24.4**	**-7.4**	**0.5**	**1.6**

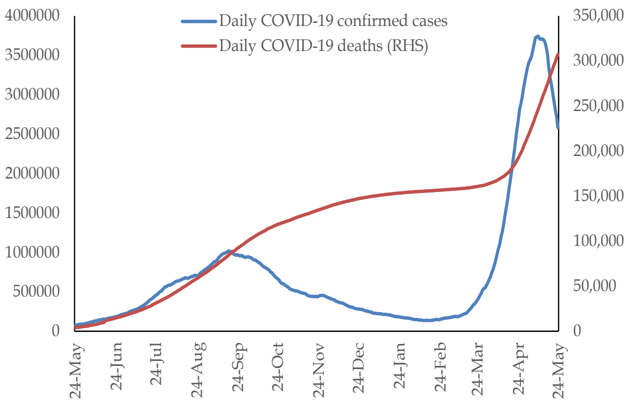
Growth challenges for FY22

The economy was gradually on the mend after the lockdown related sharp de-growth of 24.4% in Q1 FY21. Even as we expect the economy to grow at a 8.6% pace in FY22, it is likely to face some critical challenges. Though the lockdown has been less restrictive in this round compared to the last, the inadequate medical care facility and large medical care expenses are likely to have left consumer scarred. Unemployment has again started climbing, more critically in the rural sector. We think that immediate policy focus has to rivet around pushing consumption up through fiscal measures to avoid sub-optimal growth for the future.

GDP growth had turned positive in Q3FY21 and has improved further to 1.6% in Q4FY21. However, the economy has again witnessed a sudden and sharp rise in the COVID infections, that has led to lock-down measures at various state levels. In the first round of infections, the central government had implemented the lockdown and only activities that could be classified as essential were allowed – even on the production side. Further, contact-intensive services were severely impacted with recreation, restaurants, tourism and travel-related services having been totally suspended. In this 2nd round of surge in infections, the Central Government has not imposed any blanket restriction but has left various state governments and local authorities to decide. However, as it panned out, most of the states across India imposed restrictions on the free movements of goods and services.

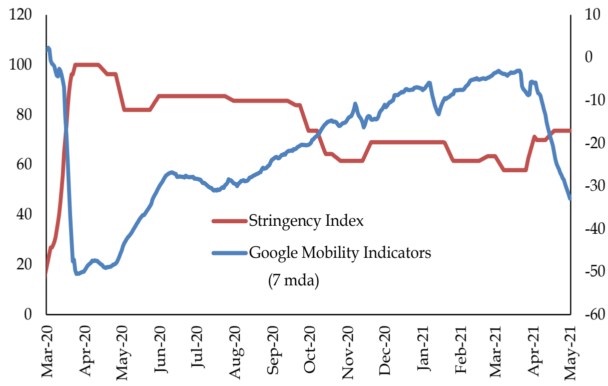
While the recent decline in the number of daily COVID cases has been encouraging (exhibit 1), states have been cautious and some have now extended the lockdown-like restrictions until mid June. On an annualized basis, most of the high frequency indicators are likely to look healthy on a low base distortion from last year. However, the mobility and consumption indicators have already started recording a sequential drop with state level lockdown restrictions getting entrenched and pervasive during April-May. Google mobility indicators in April and May have contracted in the range of 30-45% (exhibit 2). But, compared to the first COVID wave (where the contraction was around 50.0%) mobility indicators are relatively better. In addition, other high frequency indicators such as automobile sales and production, PMI manufacturing and services, E-way bills, power consumption etc. have also moderated sequentially.

Exhibit 1. India's daily cases have moderated from the peak



Source: CEIC, YES BANK Limited

Exhibit 2: Lockdown stringency lower; mobility contracts



Source: CEIC, YES BANK Limited

Worry is with consumption demand:

After the flattening of the first COVID curve and the relaxation of the lockdown, consumption demand appeared to have come back quite strongly. After a contraction of 26.2% and 11.2% respectively in Q1 and Q2 of FY21, the contraction in Q3FY21 was at only 2.8% and this turned positive in Q4FY22 at 2.7%. We had argued that this was enabled by the coming forth of the pent-up demand as also the traditional festive demand. This was also backed by a reduction in the repo rate from the RBI and the surplus liquidity conditions. The question we ask – will this be a possibility after the ebbing of the 2nd wave and opening up of most of the restrictions? We highlight here some critical risks for a repeat of the pent-up demand in FY22.

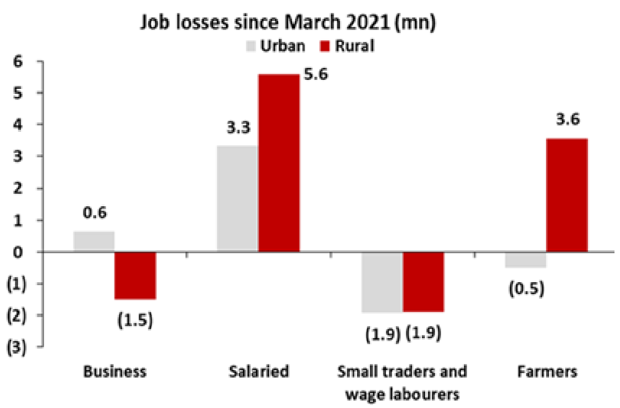
- ✓ The spread of the virus into the rural areas has been much more pervasive during the 2nd wave compared to the first wave (exhibit 3). This has led to an increase in an increase in unemployment in the rural areas. More worrying is the fact that job losses in the rural salaried segment has been more compared to the urban salaried job loss (exhibit 4). While some of this labour may be absorbed under the MNREGA programme, the amount earned by such entities are likely to be however lower, implying a hit to consumption.

Exhibit 3: Production activity picks-up as restrictions

States (% of rural cases in total)	Feb	Mar	Apr	May
UP	70.4	58.9	69.9	78.4
Rajasthan	64	72.3	73.8	74.3
Maharashtra	48.9	46.4	49.5	65.9
MP	37.2	38.4	56.1	55.9
Karnataka	41.7	34.8	37.4	54.8
Gujarat	49.8	34.6	38.5	52.7
WB	35.9	32.7	48.7	52.6
Kerala	48.7	44.6	41.4	43.5
Tamil Nadu	36.2	35.5	40.8	41.8

Source: covid19india.org, YES BANK Limited

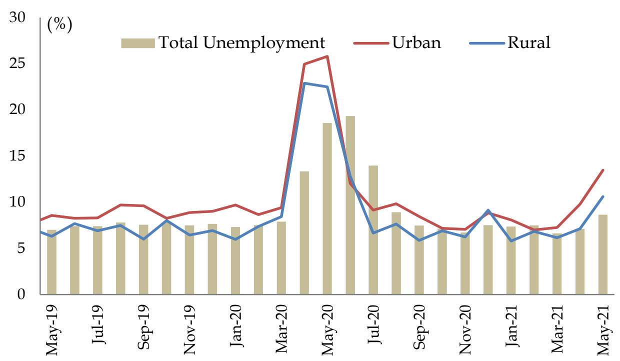
Exhibit 4: Job losses by rural salaried has been high



Source: CEIC, YES BANK Limited

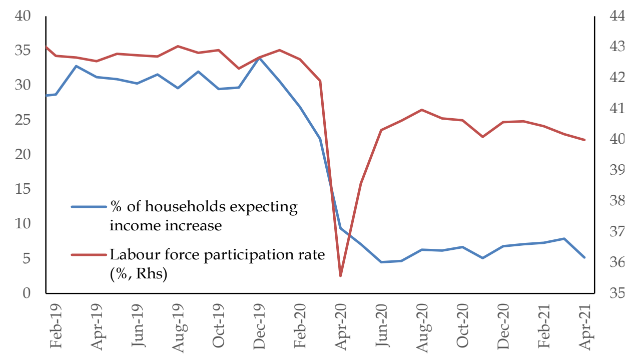
- Urban unemployment has also increased in the 2nd phase of the lockdown (exhibit 5). More importantly, on the ground reality possibly indicates that certain familes might have had to endure a sharp increase in healthcare expenses during the 2nd round of COVID infections. This is likely to reduce the capacity of discretionary spend by urban consumers. During Q2FY21, net household financial savings had come down after a sharp increase in the net savings during the stringent lockdown phase of Q1FY21 (exhibit 8). We see a possibility of precautionary savings increasing again as urban families might tend to keep aside larger amounts for healthcare expenses. Importantly, in Q4FY21, private financial consumption expenditure has registered a growth of 2.3% QoQ while its share in GDP in real terms has dropped off to 55.4% from 58.3% in Q3 FY21.

Exhibit 5: Urban unemployment has also started to increase



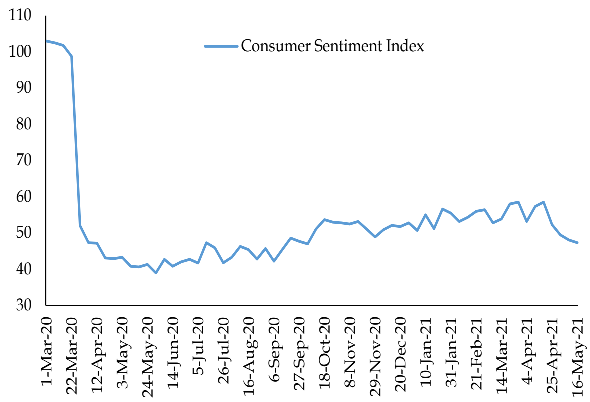
Source: CMIE, YES BANK Limited

Exhibit 6: Dips seen in Household income expectation



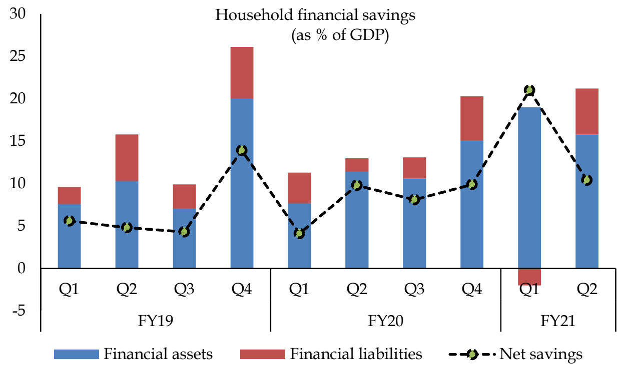
Source: CMIE YES BANK Limited

Exhibit 7: Consumer sentiments take a beating again



Source: CMIE, YES BANK Limited

Exhibit 8: Precautionary savings may actually increase



Source: RBI, YES BANK Limited

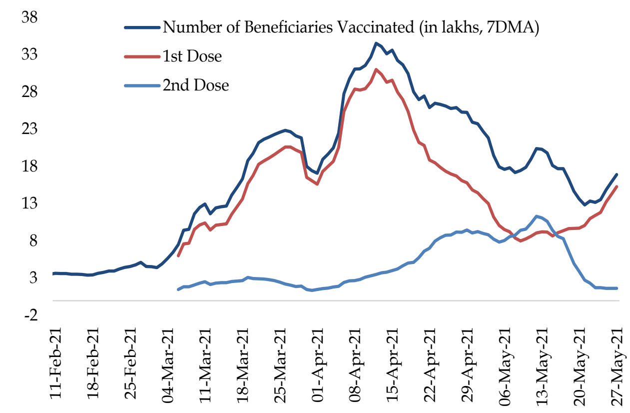
- ✓ We note that pent-up demand and later festive demand had led to a revival in consumption spending after the phased unlocking of the economy in the second half of FY21. The consumers at this point also had the benefit of lower interest cost for leveraged purchases as the RBI slashed repo rate. As most categories of loans to consumers are now repo-linked, the repo rate reduction of the RBI immediately benefitted the borrowers. This is unlikely now as we do not expect any further monetary policy easing by the RBI immediately due to inflationary concerns.

Factors that could significantly support recovery:

We believe that, at this particular juncture, consumption demand has to improve ahead of investment demand for a sustained upswing to take hold. Importantly, we think that speeding up of the vaccination drive could be the answer as it will move the economy towards herd immunity and reduce the uncertainties with respect to being infected by the virus and consequent medical expenses for the same. At this current juncture, vaccination doses appear to be in short supply (exhibit 9) but news flow indicates the chance of a improvement in the supplies starting for June 2021 and speeding up rapidly especially from August, 2021. While supplies from domestic manufacturers, especially from Serum Institute of India is expected to improve starting June, the emergency authorisation of other vaccines such as Russia's Sputnik V will also help. The Central Government is confident of completing vaccinating a significant portion of the population by December. We would incrementally watch this space for a better understanding of the recovery in consumption demand taking shape.

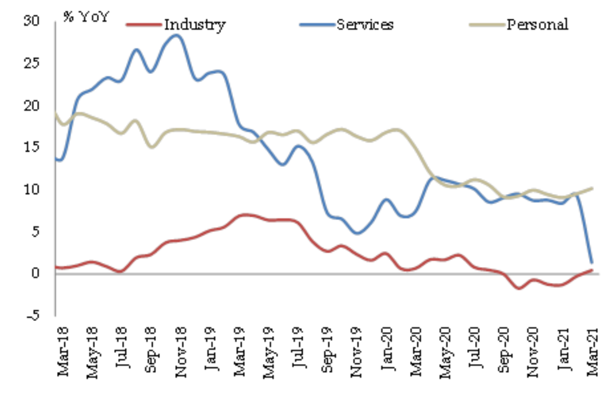
Importantly, a significant drive with respect to vaccinations can help revive contact based services such as restaurant, travel and tourism and all related services. (exhibit 10)

Exhibit 9: Vaccinations have slowed, revival likely from June



Source: CEIC, YES BANK Limited

Exhibit 10: Services sector credit demand could improve



Source: RBI, CEIC, YES BANK Limited

Overall, our assessment of both the headwinds and the tailwinds for growth lead us to remain slightly cautious on the expected recovery trajectory for India. For now, we expect the GVA growth in real terms in FY22 to be at 7.4% while real GDP is likely to be at 8.5%. In the event that consumption demand revival remains weak, capital spending by the government could come to the rescue. While the Central Government has till now desited from providing any enablers to the demand side due to lack of much fiscal space, any efforts directed towards the same could also help revive sentiment.

YES Bank FY22 GVA & GDP Growth Projections (% YoY)						
	FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	FY22
Agriculture	**3.6**	**3.0**	**3.5**	**3.0**	**3.0**	**3.1**
Industry	**-7.0**	**34.4**	**0.5**	**-1.9**	**-0.3**	**8.2**
Mining	-8.5	10.0	0.5	1.5	1.5	3.4
Manufacturing	-7.2	35.0	-2.5	-2.0	1.0	7.9
Electricity	1.9	8.0	1.5	2.5	2.5	3.6
Construction	-8.6	60.0	7.5	-4.0	-4.0	14.9
Services	**-8.4**	**12.9**	**8.5**	**7.2**	**7.3**	**9.0**
Trade, etc.	-18.2	30.0	6.0	6.5	6.5	12.3
Finance, etc.	-1.5	5.5	8.5	4.0	4.0	5.5
Public Administration	-4.6	12.0	12.0	13.0	13.0	12.5
GVA	**-6.2**	**16.4**	**5.4**	**3.7**	**4.2**	**7.4**
GDP	**-7.3**	**19.0**	**5.6**	**3.9**	**5.3**	**8.5**

About YES BANK

YES BANK is a 'Full Service Commercial Bank' providing a complete range of products, services and technology driven digital offerings, catering to Retail, MSME as well as corporate clients. YES BANK operates its Investment banking, Merchant banking & Brokerage businesses through YES SECURITIES and its Mutual Fund business through YES Asset Management (India) Limited, both wholly owned subsidiaries of the Bank. Headquartered in Mumbai, it has a pan-India presence across all 28 states and 8 Union Territories in India including an IBU at GIFT City, and a Representative Office in Abu Dhabi. For more information, please visit the Bank's website at http://www.yesbank.in/.

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