

RESEARCH
BOB Economics Research | Q1FY22 GDP

Growth recovers on a low base

SUMMARY
India Economics: Q1FY22 GDP

India's economy reported a sharp rebound at 20.1% in Q1FY22 over a low base of (-) 24.4% last year. Exports and investment demand led the uptick. Consumption is recovering at a slower pace and likely to do so in the near-term as well. Construction and manufacturing are the GVA growth drivers and will continue to do well in the near-term. Contact intensive trade, hotels category will rebound with a lag. We expect India to grow by 9.7% in FY22 led by government spending, exports and corporate capex.

[Click here for the full report.](#)

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.28	(3bps)	6bps	57bps
India 10Y yield (%)	6.23	(3bps)	2bps	11bps
USD/INR	73.27	0.6	1.5	0.5
Brent Crude (US\$/bbl)	73.41	1.0	(3.8)	62.1
Dow	35,400	(0.2)	1.3	24.5
Shanghai	3,528	0.2	3.8	3.9
Sensex	56,890	1.4	8.2	47.3
India FII (US\$ mn)	27-Aug	MTD	CYTD	FYTD
FII-D	41.7	1,581.4	(1,671.8)	355.5
FII-E	(83.3)	394.6	6,772.8	(553.6)

Source: Bank of Baroda Economics Research

BOBCAPS Research

researchreport@bobcaps.in



Q1FY22 GDP

31 August 2021

Growth recovers on a low base

India's economy reported a sharp rebound at 20.1% in Q1FY22 over a low base of (-) 24.4% last year. Exports and investment demand led the uptick. Consumption is recovering at a slower pace and likely to do so in the near-term as well. Construction and manufacturing are the GVA growth drivers and will continue to do well in the near-term. Contact intensive trade, hotels category will rebound with a lag. We expect India to grow by 9.7% in FY22 led by government spending, exports and corporate capex.

Sameer Narang |
 Dipanwita Mazumdar | Aditi Gupta
 chief.economist@bankofbaroda.com

GDP growth at 20.1% in Q1FY22: GDP growth bounced back to 20.1% in Q1FY22 from an increase of 1.6% in Q4FY21. This was due to base effect as GDP had fallen by 24.4% in Q1FY21. The uptick was led by investment demand which reported an increase of 55.3% over the previous year on the back of equally sharp decline of 46.6% last year. Exports too seem to have done well with an increase of 39.1% over the previous year. Exports had contracted by 21.8% last year. Private consumption demand increased by 19.3% after reporting a drop of 26.2% last year. Consumption is still 12% below its pre-pandemic level (Jun'19 level) and will recover only when the economy is fully functional.

Base effect pulls GVA up: GVA rose by 18.8% in Q1FY22 from 3.7% in Q4FY21. This was supported by a favourable base (-22.4% in Q1FY21). The uptick in Q1 was led by construction sector which reported an increase of 68.3% from an equally sharp fall of 49.5% last year. Even manufacturing output recovered by a strong 49.6% in the quarter after falling by 36% last year. Both these sectors are now at 15% and 4% below pre-pandemic levels. Services sector rose by 11.4% in Q1FY22 from 1.5% in Q4FY21 (-21.5% in Q1FY21). While trade, hotels, transport and communication reported an increase of 34.3%, it is still 30% below its pre-pandemic level (Jun'19) and will recover with a lag. Financial services and real estate sector reported an increase of 3.7% compared with a decline of 5% last year. Public administration and defence too reported a muted growth of 5.8% over a 10.2% decline seen last year. The second wave seems to have delayed the recovery of services sector more than manufacturing.

Outlook for FY22: Agriculture sector has been pandemic resilient. Its output is 8% above pre-pandemic level. A below normal monsoon poses a risk to its growth in FY22. Manufacturing and construction activity are likely to do well on the back of exports and government spending. Contact intensive services sector is likely to recover with a lag. Rising infections in certain states pose a risk to services recovery. Thus on an overall basis, we expect GDP growth at 9.7% in FY22. The improving pace of vaccinations, government tax collections, exports and corporate investments in select sectors are a tailwind for growth.

Key highlights

- GDP growth at 20.1% in Q1 led by exports and investments.
- GVA growth at 18.8% in Q1 led by construction manufacturing and trade, hotels category.
- GDP to grow by 9.7% in FY22 led by exports, government spending and investments. Consumption to recover with a lag.



Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Rating distribution

As of 31 August 2021, out of 105 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 48 have BUY ratings, 25 have HOLD ratings, 10 are rated ADD*, 2 are rated REDUCE* and 20 are rated SELL. None of these companies have been investment banking clients in the last 12 months. (*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ00159332 dated 20 November 2017. BOBCAPS CIN Number: U65999MH1996GOI098009.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed

in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.