

# GDP & Fiscal Deficit Review

Refer to important disclosures at the end of this report

## Growth nosedives – calls for further rate cut and higher govt spending

The unexpected downshift in Q1FY20 GDP growth to 5% (our expectation: 5.5%) was due to a severe slowdown in private consumption. This, along with weak lead indicators for Q2, led us to revise FY20 growth estimate to 6.1% from 6.7%. Nominal GDP growth at 8.0% for Q1FY20 is the slowest since FY10. This, we believe, emanates from: 1) the significant slowdown in private consumption (6.2% yoy vs. 10% in Q4FY19) which is reflected in the decline in auto sales and consumer durables production; 2) uncertainty regarding election and budget; 3) tightness in systemic-level credit; and 4) meaningful decline in corporate earnings and sales growth. Government consumption growth of 12.1% yoy in Q1FY20 is likely to be revised downward as it is not in line with the central government's revenue spending (CGA) growth of 1.7% yoy.

In our view, Q1 GDP is significantly lower than the RBI's trajectory, making room for at least another 50bps cut - as the policy decision is now anchored toward narrowing the output gap. Based on this, we expect 10-year G-Sec yields to rally further from the current level of 6.5%. However, we believe that GDP in H2FY20 will be higher on: 1) lower base; 2) eventual pick-up in government consumption spending to ~15% yoy; 3) improvement in credit growth to 13%; and 4) multiplier impact of higher government spending on private consumption growth.

### Fiscal deficit at 77.8% of BE in April-July

Fiscal deficit remains comfortable at 78% of BE vs. 84% in FY19 and 86% in FY18 on significantly slower growth in total expenditure. Total expenditure grew 6.5% yoy, with revenue expenditure growing at 7.9% yoy and capital expenditure declining 3.4%. Further, dissecting the revenue expenditure, spending is largely from higher petroleum and fertilizer subsidy, PM's Kisan Saman Nidhi (Rs62bn) and higher spending in the Finance Ministry for the transfer to states and interest payments. Capital spending, on the other hand, has declined by lower spending on roads and railways by 6% and 7%, respectively.

Gross tax collections remained sombre at 6.6% yoy on lower direct tax collections. Indirect tax collections grew 7.2% yoy, which is also reflected in the significantly lower nominal GVA manufacturing growth rate of 2.0%. Rs100bn of CPSE ETF is reflected in higher disinvestments during Jul'19. Subsequently, in Aug'19 we might see a surge in government revenue kitty, with Rs1.48tn transfer from the RBI, improving government's pace of spending.

### Real GVA grows at 4.9% on industrial growth slowdown

Agri realizations show some marginal improvement in Q1 as the gap between real and nominal agri GVA improved to 586bps – the second-consecutive quarter of improvement. In addition, the area sown deficit was down to 2.5%. We still wait for more anecdotal evidence to confirm the improvement in rural economic conditions. The industry sector further slowed to 2.7% yoy vs. 7.0% in Q3FY19, largely due to the slowdown in manufacturing activity which is reflected in Q4 corporate performance and lower IIP growth. Within manufacturing, we saw a worsening in the consumer durables and capital goods sectors. Growth in the services sector has also slowed down to 6.9% yoy in Q1 on a drop in financial and real estate to 5.9%.

### Sharp slowdown in consumption growth

The tightness in credit offtake due to the NBFC crisis, coupled with weak consumer sentiment, significantly pushed nominal private consumption growth to 6.2%. Corporate sales growth of -6% yoy in Q1FY20 said a similar story. Nominal fixed capital formation remained low with 7.1% yoy growth, and this was also reflected in the 48% yoy decline in investment projects completed (CMIE). Central government capital spending declined 28% yoy in Q1FY20. Now, with the slowdown in consumption activity, we expect the private capex cycle to be further delayed. Most of the lead indicators, such as industry credit and projects completed data from the CMIE, point toward subdued capex activity.

### Outlook: We revise FY20 GDP growth estimate to 6.1% vs. 6.7%

The slowdown is likely to prevail in most part of FY20. However, the lower base in H2FY20 is likely to reflect in higher growth of 6.6% yoy in H2FY20. We expect some improvement in growth in H2 on an improvement in government spending from the current anemic pace. Some release in credit tightness in the financial sector on various measures taken by the government such as resolution of the NBFC crisis, linking of some lending products to the repo rate, and PSB recapitalization and consolidation are likely to aid in improving growth going forward.

Please see our India EAP (Page 5): [Emkay Alpha Portfolio – Nifty](#)

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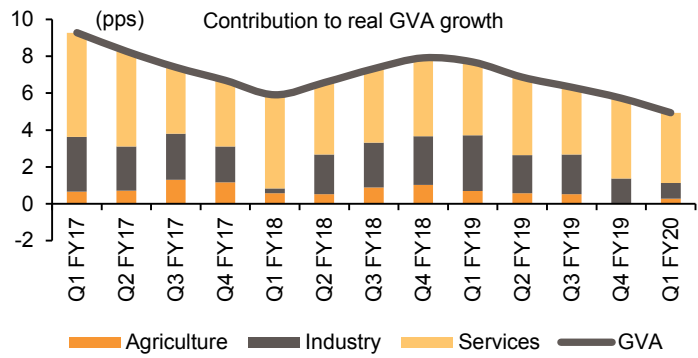
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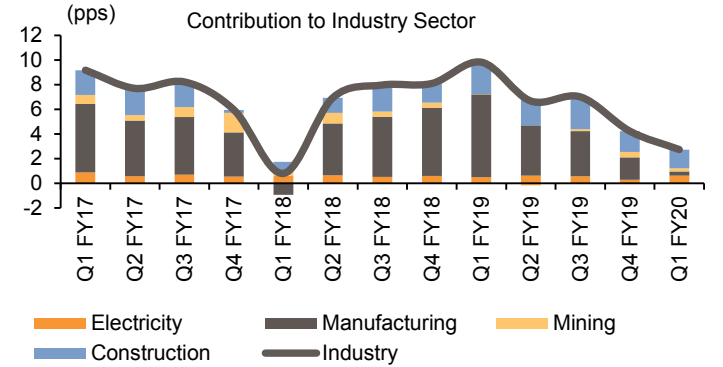
# Story in Charts

**Exhibit 1: Real GVA growth drops to a 5-year low of 4.9% in Q1FY20**



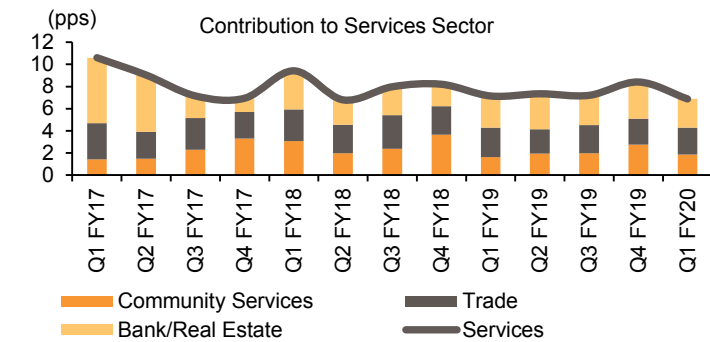
Source: MOSPI, Emkay Research \* Includes Construction

**Exhibit 2: Industry growth slows to 2.7% in Q1FY20 contributed by a drop in manufacturing activity**



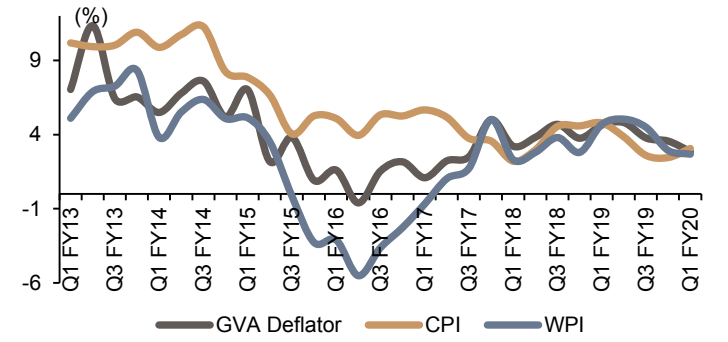
Source: MOSPI, Emkay Research \* Includes Construction

**Exhibit 3: ...service sector also slows down to 6.9% yoy**



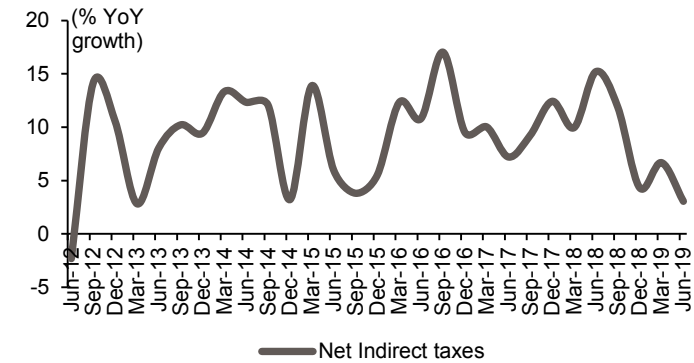
Source: MOSPI, Emkay Research

**Exhibit 4: Inflation at broader level further eases in Q1FY20**



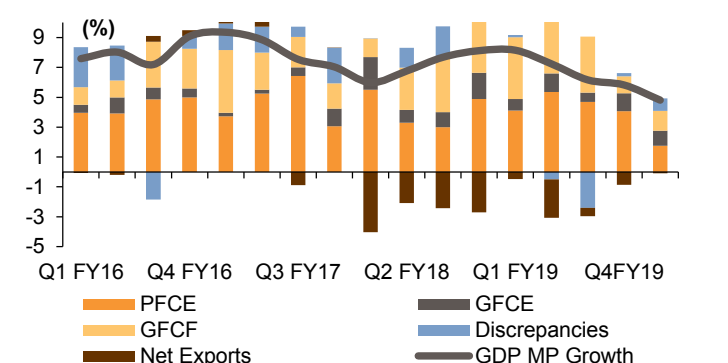
Source: MOSPI, Emkay Research

**Exhibit 5: Net indirect tax slows to 3% yoy in Q1FY20 on lower tax collections**



Source: CGA, Emkay Research

**Exhibit 6: Substantially lower private consumption drags down GDP growth**



Source: MOSPI, Emkay Research

**Exhibit 7: Real GDP trajectory and forecasts**

% YoY	Actuals									New Estimates		
	FY17	FY18	FY19	Q1FY19	Q2FY20	Q3FY19	Q4FY19	Q2-Q4FY19	Q1FY20	% of GDP (wt)	Q2-Q4FY20E	FY20E
Private consum (PCE)	8.2	7.4	8.1	7.3	9.8	8.1	7.2	8.3	3.1	55.3	6.2	5.5
Govt consum (GCE)	5.8	15	9.2	6.6	10.9	6.5	13.1	10.2	8.8	11.5	11.9	11.1
Gross Capex (GCF)	3.6	10.4	9	10.5	11.8	11.2	3.6	8.9	3.7	32.6	6.1	5.5
Net exports	7.2	-263.1	-31	-14.9	-77.7	-13.9	-33.4	39.7	1.9	-4.6	2.1	2
Discrepancies	239.7	42.3	-21.8	6	-13.6	-113.7	6	-28.2	37.9	2.9	-27.4	-10.7
GDP at mkt price (MP)	8.2	7.2	6.8	8	7.2	6.2	5.8	6.4	5	100	6.4	6.1
Nominal GDP	11.6	11.3	11.2	12.6	12	11	9.4	10.8	8		10.6	9.6
Deflator	3.4	4.1	4.4	4.3	4.5	4.5	3.4	4.4	2.4		4.2	3.5

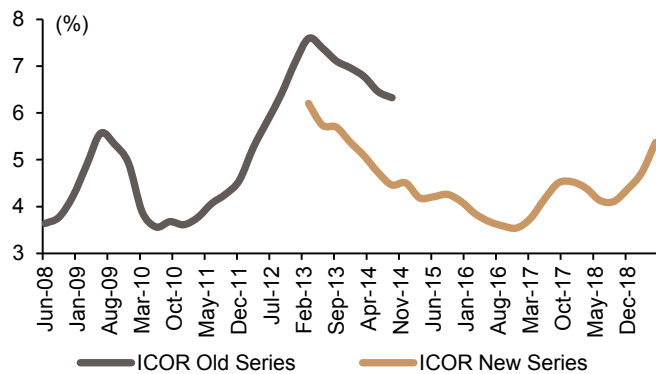
Source: Emkay Research

Exhibit 8: Macro aggregates at a glance

	(% YoY growth)						Contribution (pps)			
	FY18	FY19	Q1FY19	Q3FY19	Q4FY19	Q1FY20	Q1FY19	Q3FY19	Q4FY19	Q1FY20
<b>GVA and its components</b>										
Agriculture etc.	5.0	2.9	5.1	2.8	(0.1)	2.0	0.7	0.5	(0.0)	0.3
Industry	5.9	6.9	9.8	7.0	4.2	2.7	3.0	2.2	1.4	0.9
Mining & quarrying	5.1	1.3	0.4	1.8	4.2	2.7	0.0	0.1	0.1	0.1
Manufacturing	5.9	6.9	12.1	6.4	3.1	0.6	2.1	1.1	0.6	0.1
Electricity	8.6	7.0	6.7	8.3	4.3	8.6	0.2	0.2	0.1	0.2
Construction	5.6	8.7	9.6	9.7	7.1	5.7	0.8	0.8	0.5	0.5
Services	8.1	7.5	7.1	7.2	8.4	6.9	4.0	3.6	4.4	3.8
Trade, hotels etc.	7.8	6.9	7.8	6.9	6.0	7.1	1.5	1.3	1.2	1.3
Finance, insurance etc	6.2	7.4	6.5	7.2	9.5	5.9	1.6	1.4	1.7	1.4
Social & personal services	11.9	8.6	7.5	7.5	10.7	8.5	0.9	1.0	1.4	1.0
GVA at Basic Prices	6.9	6.6	7.7	6.3	5.7	4.9	7.7	6.3	5.7	4.9
<b>GDP and its components</b>										
Private cons exp (PCE)	7.4	8.1	7.3	8.1	7.2	3.1	4.1	4.7	4.1	1.8
Govt cons exp (GCE)	15.0	9.2	6.6	6.5	13.1	8.8	0.8	0.6	1.2	1.0
Gross Cap For (GCF)	10.4	9.0	10.5	11.2	3.6	3.7	3.6	3.8	1.2	1.3
GFCF	9.3	10.0	13.3	11.7	3.6	4.0	4.2	3.7	1.1	1.3
Inventories	21.2	4.8	9.9	4.3	1.0	2.1	0.1	0.0	0.0	0.0
Valuables	27.4	(9.0)	(32.6)	2.6	5.2	(3.4)	(0.6)	0.0	0.1	(0.0)
Net exports	(263.1)	(31.0)	(14.9)	(13.9)	(33.4)	1.9	(0.7)	(0.6)	(0.9)	0.1
Exports	4.7	12.5	10.2	14.6	10.6	5.7	2.0	2.9	2.0	1.2
Imports	17.6	15.4	11.0	14.5	13.3	4.2	2.7	3.5	2.9	1.1
Discrepancies	42.3	(21.8)	6.0	(113.7)	6.0	37.9	0.1	(2.4)	0.2	0.8
<b>GDP at mkt price (MP)</b>	<b>7.2</b>	<b>6.8</b>	<b>8.0</b>	<b>6.2</b>	<b>5.8</b>	<b>5.0</b>	<b>8.0</b>	<b>6.2</b>	<b>5.8</b>	<b>5.0</b>

Source: CSO, Emkay Research

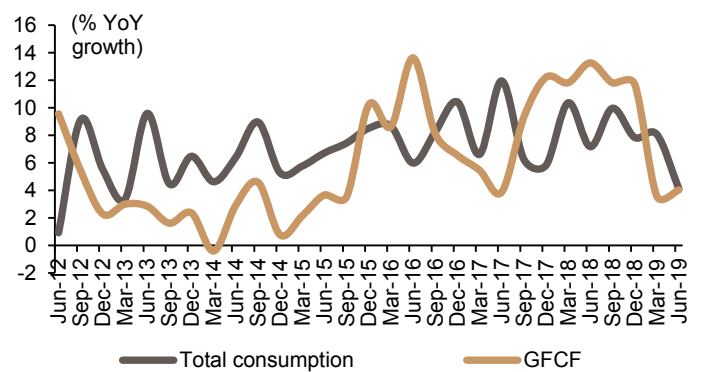
Exhibit 9: ICOR moves up with sharper drop in GDP growth



Source: MOSPI, Emkay Research

# Calculated as the ratio of MA 4-qrtr investment rate to MA 4-qrtr GDP growth

Exhibit 10: Total consumption drops and investment activity remains weak



Source: MOSPI, Emkay Research

## Exhibit 11: Government Accounts for April-July

	Apr-Jul'19	YoY (%)	% of BE	Apr-Jul'18	YoY %	% of Actual	Apr-Jul'18	YoY %	% of Actual
<b>Gross Tax Collection</b>	<b>5,391</b>	<b>6.6</b>	<b>21.9</b>	<b>5,055</b>	<b>11.7</b>	<b>24.3</b>	<b>4,525</b>	<b>17.1</b>	<b>23.3</b>
<b>Net Tax Revenue</b>	<b>3,387</b>	<b>15.8</b>	<b>20.5</b>	<b>2,926</b>	<b>13.7</b>	<b>22.2</b>	<b>2,573</b>	<b>16.1</b>	<b>20.7</b>
<b>Direct Tax collections</b>	<b>2,171</b>	<b>5.8</b>	<b>16.3</b>	<b>2,053</b>	<b>6.7</b>	<b>18.2</b>	<b>1,924</b>	<b>21.1</b>	<b>19.2</b>
Corporate Tax	884	5.5	11.5	838	0.6	12.6	833	24.2	14.6
Income Tax	1,288	6.0	22.6	1,215	11.3	26.3	1,091	18.8	25.3
<b>Indirect Tax Collection</b>	<b>3,219</b>	<b>7.2</b>	<b>28.6</b>	<b>3,002</b>	<b>15.4</b>	<b>31.4</b>	<b>2,601</b>	<b>14.3</b>	<b>28.4</b>
GST	2,103	11.7	31.7	1,883	NA	41.2	0	NA	0.0
Customs	517	20.6	33.2	429	NA	36.4	950	NA	73.6
Excise Duty	548	(10.2)	18.3	611	NA	26.4	898	NA	34.7
Service Tax	7	(80.2)	NA	36	NA	52.7	699	NA	86.1
Other Taxes	43	0.9	62.3	43	NA	28.2	53	NA	98.7
<b>Non Tax Revenue</b>	<b>439</b>	<b>1.8</b>	<b>14.0</b>	<b>431</b>	<b>30.1</b>	<b>17.5</b>	<b>331</b>	<b>(2.8)</b>	<b>17.2</b>
Interest Receipts	41	19.8	30.1	34	50.9	26.9	23	(20.4)	16.8
Dividends and Profits	3	219.7	0.2	1	(95.2)	0.1	18	(60.2)	2.0
Non Tax Revenue of U.T	6	9.5	28.9	6	7.9	30.5	5	26.2	27.8
Other Non-Tax Revenue	389	(0.4)	29.1	390	36.8	33.0	285	8.5	33.4
<b>Non Debt Capital Receipts</b>	<b>171</b>	<b>24.3</b>	<b>1,424.0</b>	<b>137</b>	<b>10.1</b>	<b>13.3</b>	<b>125</b>	<b>67.8</b>	<b>10.8</b>
Disinvestments	124	34.0	83.3	92	10.8	10.8	83	161.5	8.3
<b>Capital Receipts</b>	<b>5,476</b>	<b>1.4</b>	<b>77.8</b>	<b>5,403</b>	<b>6.6</b>	<b>81.9</b>	<b>5,069</b>	<b>28.8</b>	<b>85.22</b>
Market Borrowing	2,966	20.3	66.2	2,465	(2.4)	55.3	2,526	14.3	55.5
<b>Total Expenditure</b>	<b>9,473</b>	<b>6.5</b>	<b>34.0</b>	<b>8,897</b>	<b>10.1</b>	<b>38.5</b>	<b>8,084</b>	<b>23.1</b>	<b>37.7</b>
Total Revenue Expenditure	8,397	7.9	34.3	7,784	9.1	38.8	7,133	21.8	38.0
Total Capital Expenditure	1,076	(3.4)	31.8	1,113	17.0	36.7	951	33.4	36.2
<b>Revenue Deficit</b>	<b>4,571</b>	<b>3.3</b>	<b>94.2</b>	<b>4,427</b>	<b>4.7</b>	<b>99.4</b>	<b>4,228</b>	<b>28.3</b>	<b>95.3</b>
<b>Fiscal Deficit</b>	<b>5,476</b>	<b>1.4</b>	<b>77.8</b>	<b>5,403</b>	<b>6.9</b>	<b>83.7</b>	<b>5,055</b>	<b>28.5</b>	<b>85.5</b>
<b>Primary Deficit</b>	<b>3,641</b>	<b>1.3</b>	<b>841.0</b>	<b>3,594</b>	<b>4.3</b>	<b>573.3</b>	<b>3,446</b>	<b>36.2</b>	<b>554.8</b>

Source: Emkay Research

## Emkay Alpha Portfolio – Nifty



### Analyst: Sunil Tirumalai

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#### Sector

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#### Analyst bio

Sunil Tirumalai comes with 13 years of sell-side equity research experience, having been a top-ranked analyst across multiple sectors. At Emkay, Sunil heads the research team and also drives equity strategy. He holds an MBA (PGDM) from IIM Ahmedabad, and a BTech from NIT Trichy.

### EAP-Nifty (34 stocks)

Company Name	Nifty Weight	Nifty EAP Weight	OW/UW (%)	OW/UW (bps)
<b>Auto &amp; Auto Ancillaries</b>	<b>5.17</b>	<b>1.88</b>	<b>-64%</b>	<b>-329</b>
Exide Industries	0.00	0.50	NA	50
Mahindra & Mahindra	1.13	1.38	22%	25
<b>BFSI-Banks</b>	<b>29.16</b>	<b>30.77</b>	<b>6%</b>	<b>161</b>
Axis Bank	3.04	3.04	0%	0
HDFC Bank	10.73	10.00	-7%	-73
ICICI Bank	6.04	8.80	46%	276
Indusind Bank	1.68	0.75	-55%	-93
Kotak Mahindra Bank	4.48	4.48	0%	0
State Bank of India	2.81	3.70	32%	89
<b>BFSI-NBFCs</b>	<b>11.10</b>	<b>9.76</b>	<b>-12%</b>	<b>-134</b>
Bajaj Finance	1.71	1.71	0%	0
HDFC	8.05	8.05	0%	0
<b>BFSI-Insurance</b>	<b>0.00</b>	<b>0.50</b>	<b>NA</b>	<b>50</b>
ICICI Pru Life	0.00	0.50	NA	50
<b>Cement</b>	<b>1.69</b>	<b>1.69</b>	<b>0%</b>	<b>0</b>
Ultratech Cement	1.00	1.69	69%	69
<b>Consumer Goods &amp; Retail</b>	<b>11.00</b>	<b>9.22</b>	<b>-16%</b>	<b>-178</b>
Berger Paints	0.00	0.75	NA	75
Hindustan Unilever	2.72	2.00	-27%	-72
ITC	5.12	3.50	-32%	-162
Marico	0.00	1.00	NA	100
Titan Company	0.97	0.97	0%	0
United Breweries	0.00	1.00	NA	100
<b>Engineering &amp; Capital Goods</b>	<b>3.78</b>	<b>5.00</b>	<b>32%</b>	<b>122</b>
Larsen & Toubro	3.78	5.00	32%	122
<b>Information Technology</b>	<b>14.80</b>	<b>17.70</b>	<b>20%</b>	<b>290</b>
HCL Tech	1.24	2.80	126%	156
Infosys	6.65	8.20	23%	155
TCS	5.11	6.70	31%	159
<b>Metals &amp; Mining</b>	<b>3.29</b>	<b>2.00</b>	<b>-39%</b>	<b>-129</b>
Coal India	0.81	1.00	24%	19
Tata Steel	0.72	1.00	39%	28
<b>Oil &amp; Gas</b>	<b>11.66</b>	<b>11.80</b>	<b>1%</b>	<b>14</b>
GAIL	0.53	0.53	0%	0
HPCL	0.00	1.50	NA	150
ONGC	0.96	0.96	0%	0
Reliance Industries	8.81	8.81	0%	0
<b>Pharmaceuticals</b>	<b>2.31</b>	<b>2.50</b>	<b>8%</b>	<b>19</b>
Cipla	0.58	1.25	114%	67
Divi's Lab	0.00	0.75	NA	75
Ipca Lab	0.00	0.50	NA	50
<b>Ports</b>	<b>0.66</b>	<b>0.66</b>	<b>0%</b>	<b>0</b>
Adani Ports	0.66	0.66	0%	0
<b>Power</b>	<b>2.31</b>	<b>2.00</b>	<b>-13%</b>	<b>-31</b>
NTPC	1.22	2.00	65%	78
<b>Telecommunications</b>	<b>1.88</b>	<b>0.50</b>	<b>-73%</b>	<b>-138</b>
Bharti Airtel	1.41	0.50	-65%	-91
<b>Agri Input &amp; Chemicals</b>	<b>0.72</b>	<b>0.00</b>	<b>-100%</b>	<b>-72</b>
<b>Media &amp; Entertainment</b>	<b>0.48</b>	<b>0.00</b>	<b>-100%</b>	<b>-48</b>
<b>Cash</b>		<b>4.0</b>		
<b>EAP-Nifty</b>	<b>100.0</b>	<b>100.0</b>		

**EAP-Nifty portfolio NAV**

	Base			Latest
	01-Apr-19	29-May-19	30-Jul-19	29-Aug-19
EAP - Nifty	100.0	103.0	97.2	94.7
Nifty50	100.0	101.6	95.0	93.7

\*Performance measurement base date 1<sup>st</sup> April 2019

Source: Emkay Research

**Emkay Rating Distribution**

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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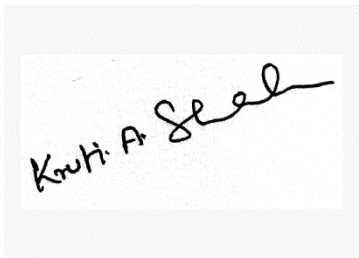
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