



panorama

September 2023



Non-essential spending is thriving, while essential consumption is lagging

- Investments have exceeded its pre-COVID trajectory, whereas consumption continues to fall behind
- Staples volume growth is weak due to the poor affordability of low-income households
- Affluent households, relatively unaffected by economic headwinds, drive strong discretionary spending
- Two-wheeler sales lag pre-COVID levels, while passenger vehicle sales surpass - both witness premiumization



Q1 GDP prints at a strong 7.8% YoY, corporate operating profit growth improves

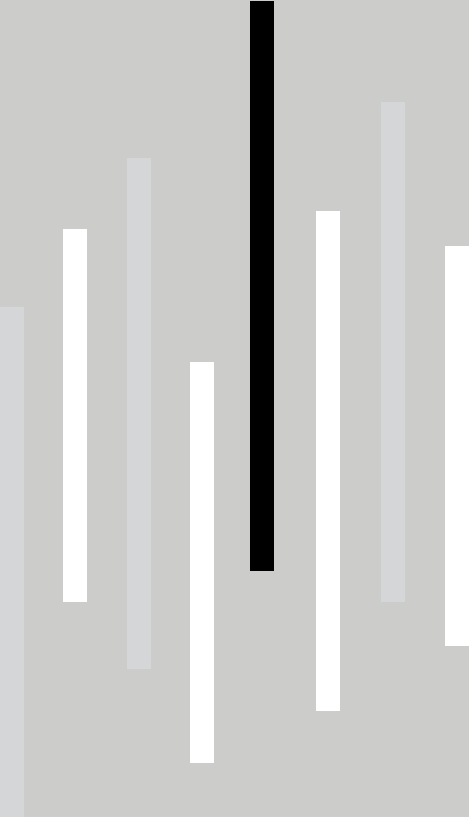
- Robust Financial Services+ propelled GDP growth higher in Q1FY24. Trade+ also registered healthy growth
- Corporates witness improvement in profit growth in Q1 as lower expenses offset poor sales growth
- Retail sales show improvement in July following a lackluster Q1, attention now on upcoming festive season
- Passenger vehicles dealer inventory reaches unprecedented levels before the festive season kicks in



Uneven monsoon poses risks to growth and inflation outlook

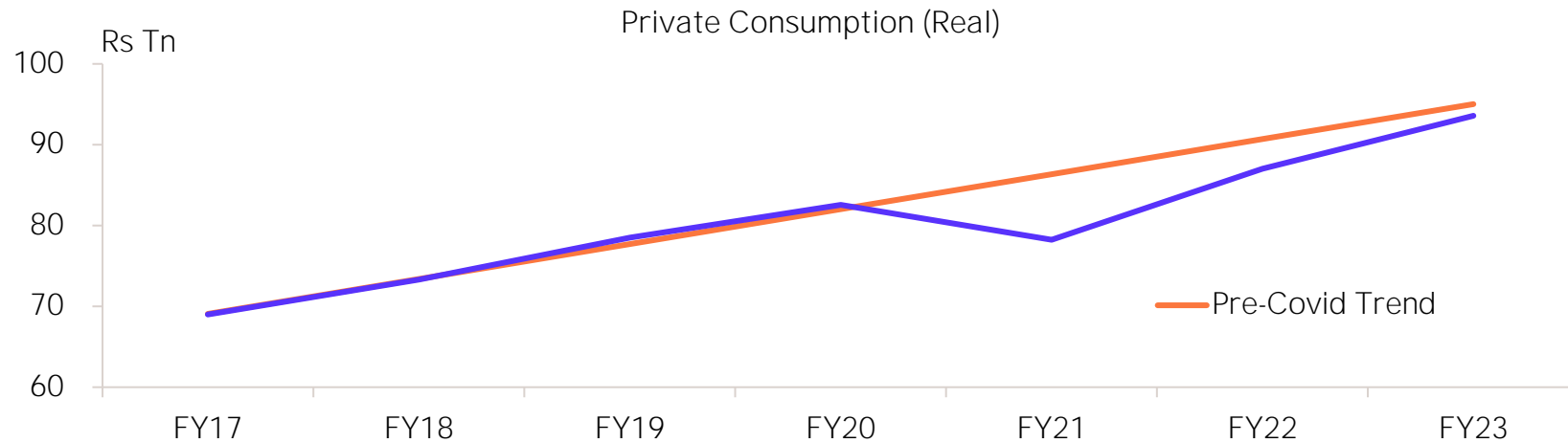
- Monsoon slips back into deficit after July recovery, as August experience record high deficit
- Uneven temporal and spatial distribution of monsoon may impact crop yields even if sowing remains normal
- Low pulses sowing may exert upward pressure on pulse prices
- Low reservoir levels in certain regions may affect the upcoming rabi sowing season

Consumption Contrasts



Investment surpasses pre-covid trajectory, while consumption lags

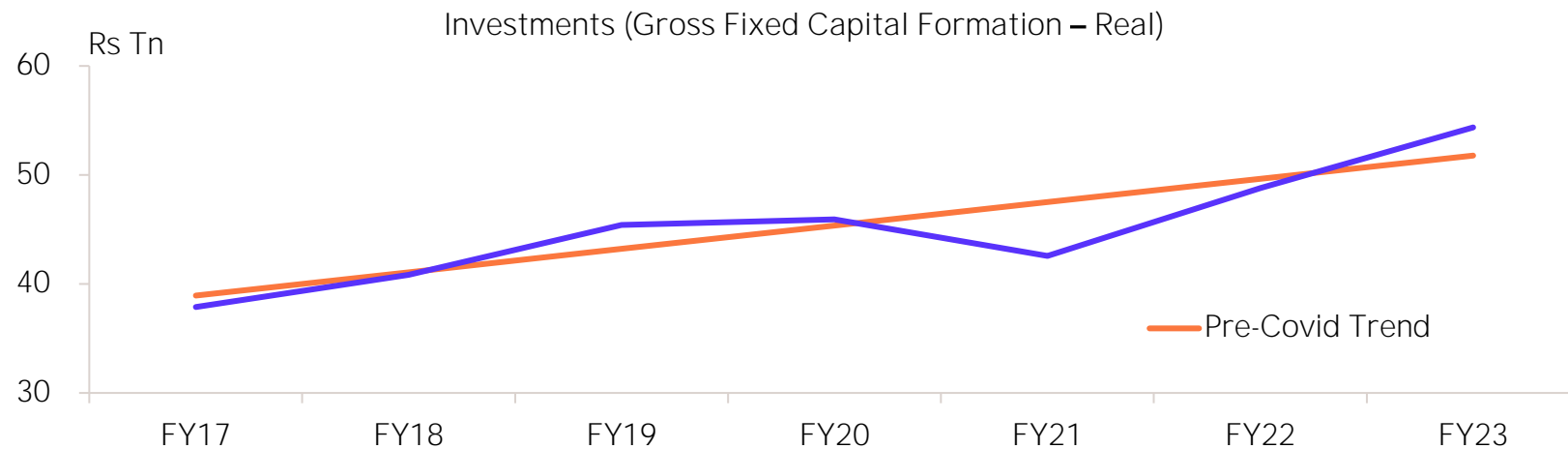
Improvement in investment bodes well for long-term growth, but weak consumption poses near-term challenges



Private consumption has been disappointing since the onset of the COVID-19 pandemic

Absolute private consumption (in real terms) remains below the pre-covid trend

The pent-up demand that emerged after COVID-19 quickly waned due to the weakened rural sector and high inflation



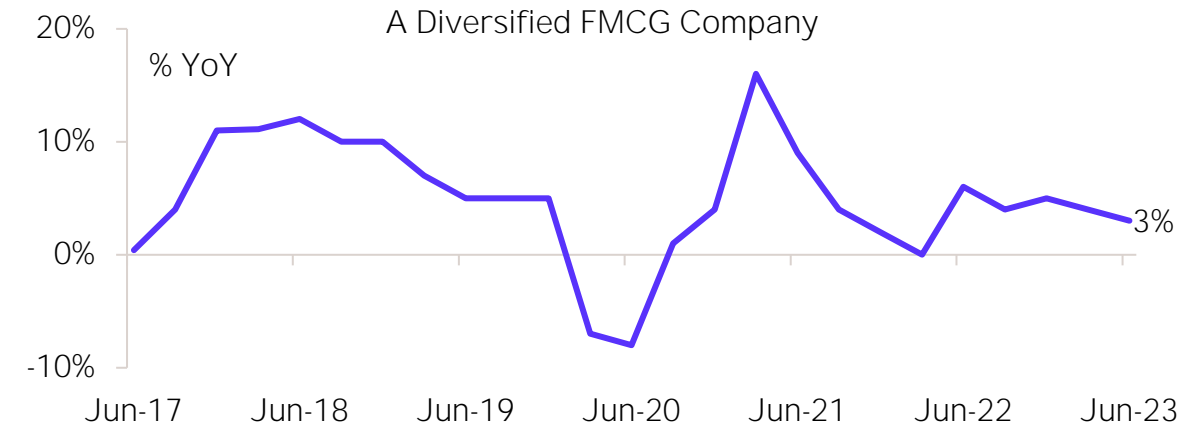
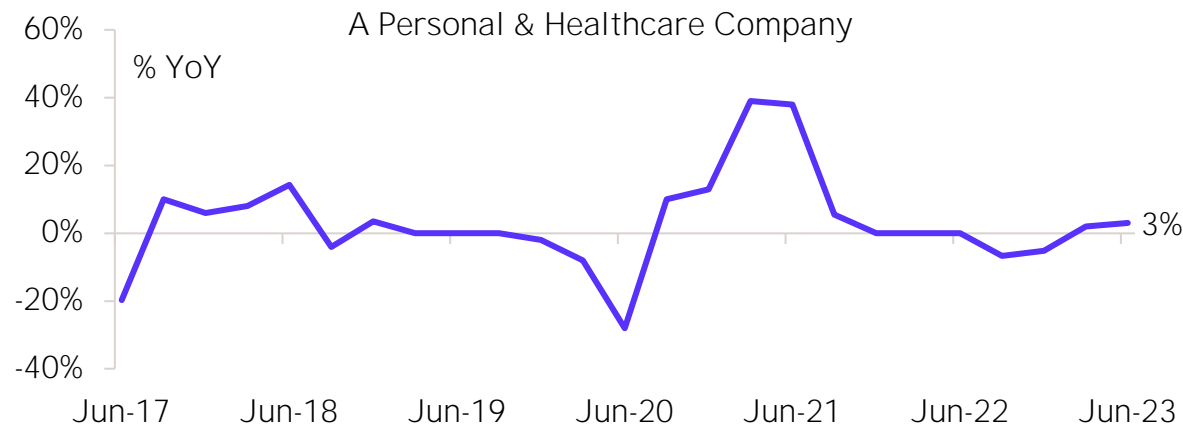
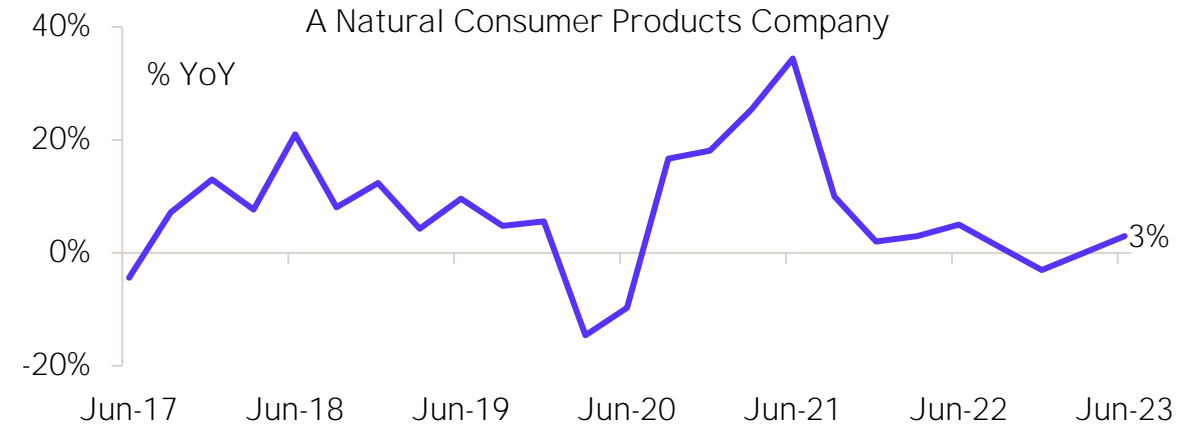
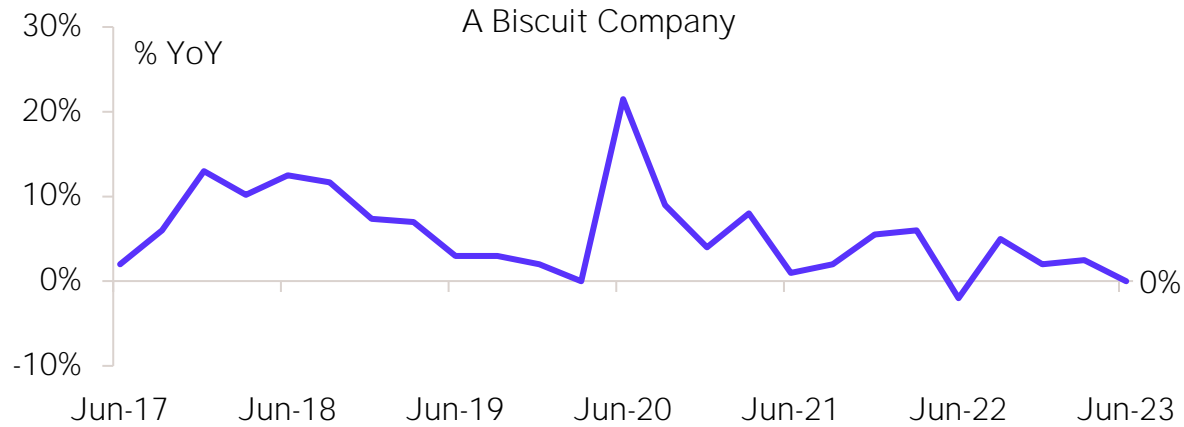
Investments, as measured by Gross Fixed Capital Formation (GFCF), have not only recovered but also surpassed the pre-COVID trend

While the government sector has been a major driver of capital expenditure, the private corporate sector has also been recovering (check [Panorama August 2023](#) for a deep dive into investment revival)

Staples volume growth across categories remains muted

Higher inflation and uneven post-COVID recovery have impacted the affordability for low-income households

Volume Growth - Staples

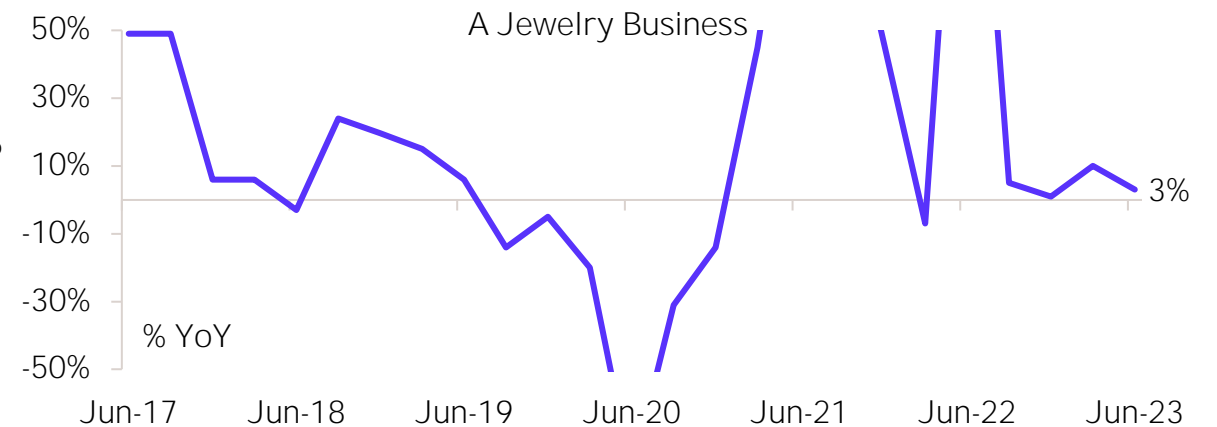
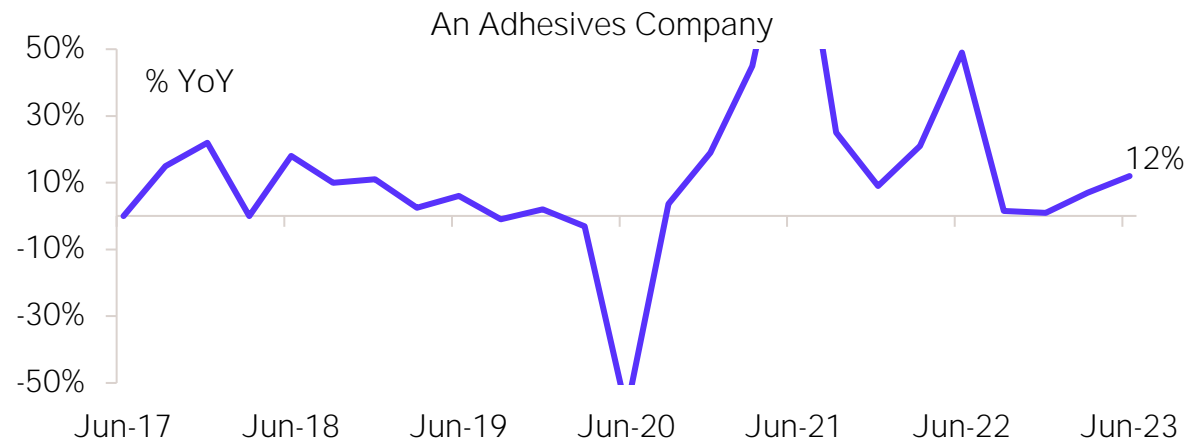
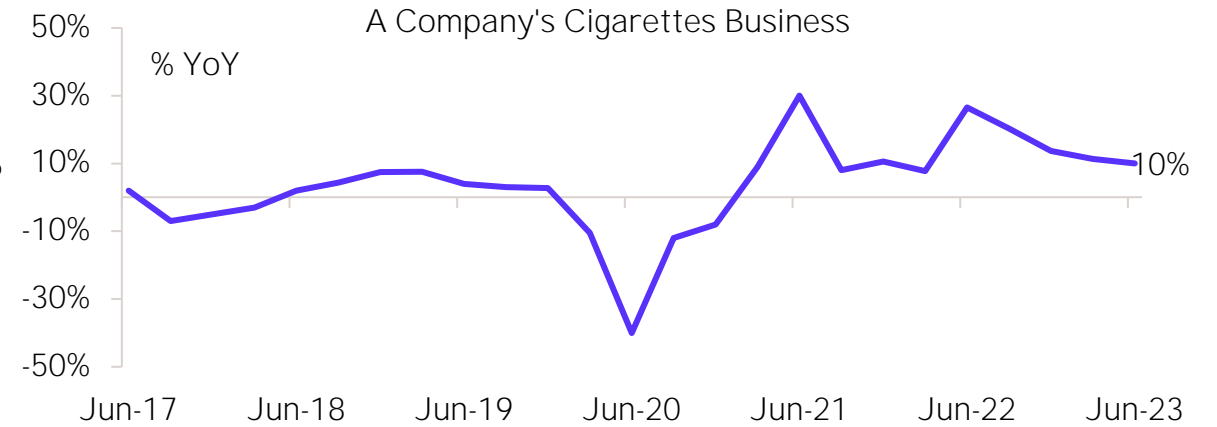
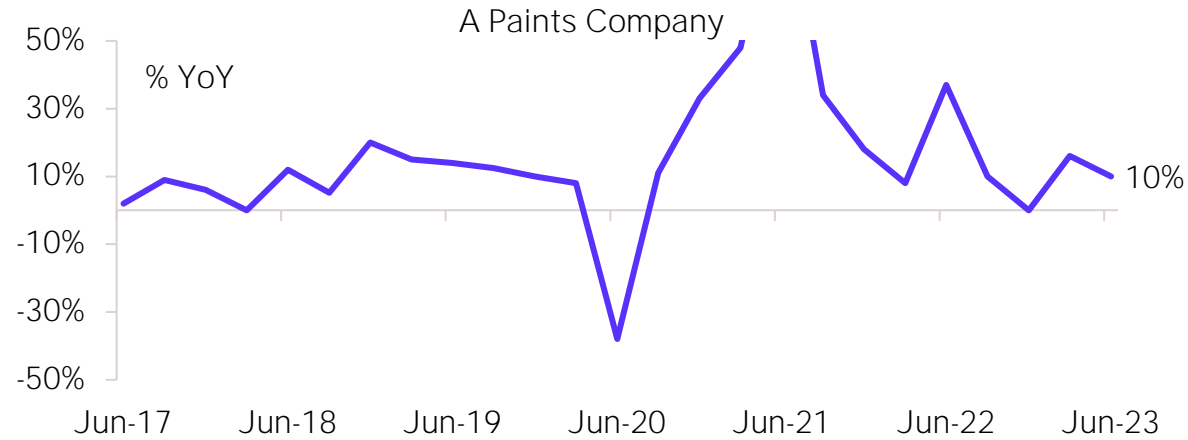


Source: Avendus Spark, 360 ONE Asset Research

Discretionary consumption witnessing strong growth

Double-digit growth in most segments suggests that affluent households have been resilient to economic headwinds

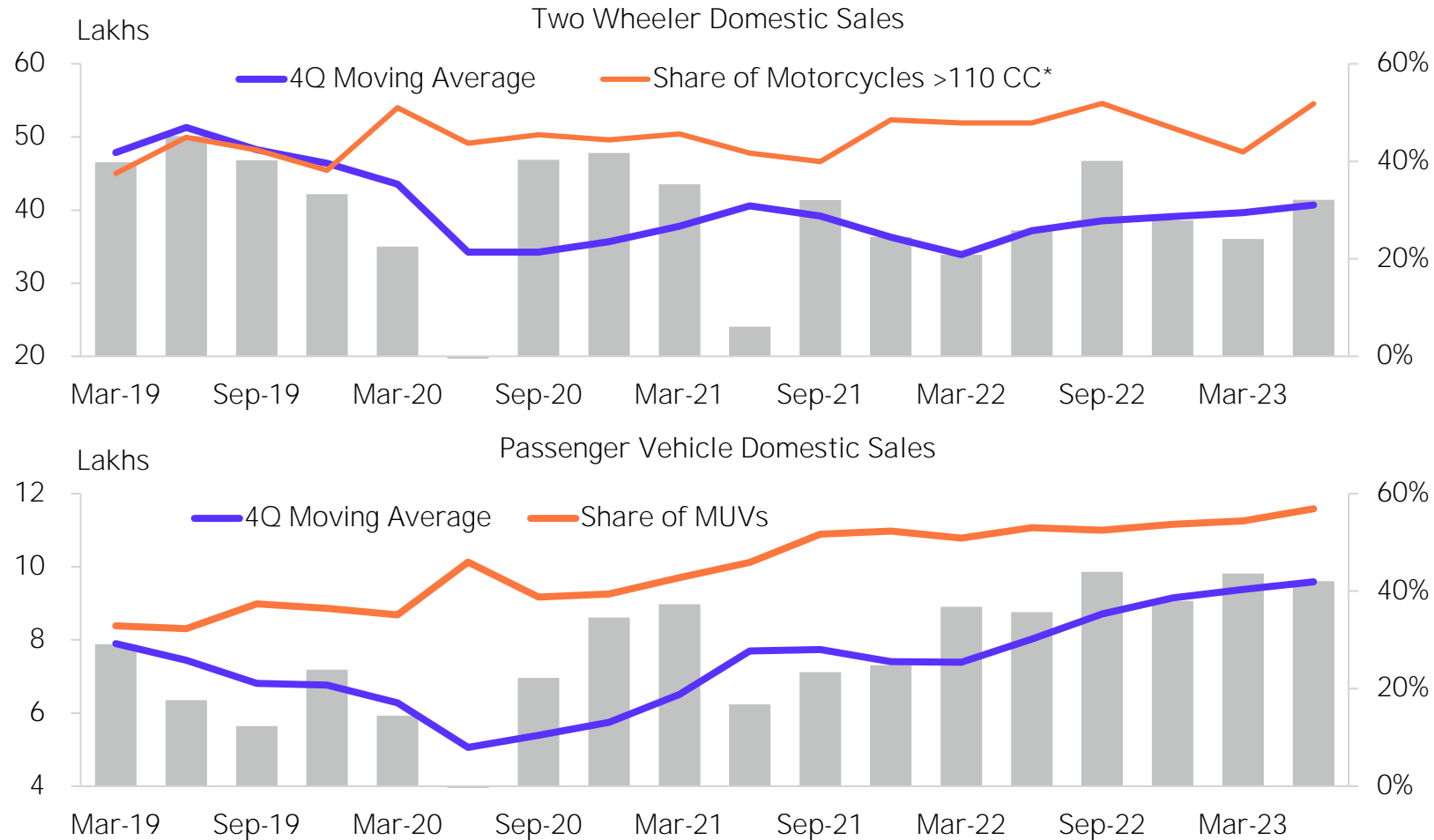
Volume Growth - Discretionary



Source: Avendus Spark, 360 ONE Asset Research

Premiumization or K-shaped recovery?

Two-wheeler sales are below the pre-COVID level, while passenger vehicle sales have surpassed it



Two-wheeler domestic sales (motorcycles + scooters) continue to remain below the pre-covid level

However, the proportion of motorcycles with engine capacities exceeding 110 CC in total motorcycle sales has risen from 38% in March 2019 to 52% in the quarter ending June 2023

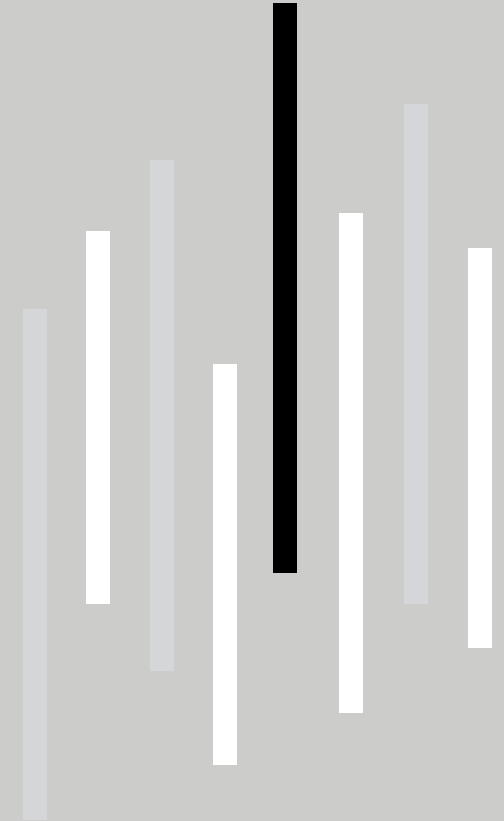
Passenger vehicle sales have been primarily driven by the Multi-Utility Vehicle (MUV) segment, which has seen its market share rise from 33% in March 2019 to 57% in the quarter ending June 2023

The increase in the market share of premium products could be due to either or both of the following factors: 1. An increase in the preference for premium vehicles. 2. Weak demand among low and middle-income households

Source: CMIE, Avendus Spark, 360 ONE Asset Research

Note: MUV - Multi-Utility Vehicles, *Share of motorcycles > 110 CC out of total motorcycles sales, 2-wheeler sales include both motorcycles and scooters

Q1 Performance Assessment & Outlook



India's GDP growth accelerates to 7.8% YoY in Q1 FY24

Growth was largely propelled by strong expansion in Services sector, while Industry & Agriculture lagged

YoY%	FY23				FY23	FY24
Sector	Q1	Q2	Q3	Q4		Q1
Agriculture	2.4%	2.5%	4.7%	5.5%	4.0%	3.5%
Industry	7.3%	(2.5%)	0.1%	4.7%	2.4%	4.6%
Mining	9.5%	(0.1%)	4.1%	4.3%	4.6%	5.8%
Manufacturing	6.1%	(3.8%)	(1.4%)	4.5%	1.3%	4.7%
Electricity	14.9%	6.0%	8.2%	6.9%	9.0%	2.9%
Services	16.3%	8.9%	6.4%	7.4%	9.5%	10.0%
Construction	16.0%	5.7%	8.3%	10.4%	10.0%	7.9%
Trade, Hotels, Transport, Communication	25.7%	15.6%	9.6%	9.1%	14.0%	9.2%
Financial services, Real estate, Professional Services	8.5%	7.1%	5.7%	7.1%	7.1%	12.2%
Public Admin, Defence & Other Services	21.3%	5.6%	2.0%	3.1%	7.2%	7.9%
Real GVA	11.9%	5.4%	4.7%	6.5%	7.0%	7.8%
Real GDP	13.1%	6.2%	4.5%	6.1%	7.2%	7.8%

Robust Financial Services+ growth propelled GDP growth higher in Q1FY24. Trade+ sector also registered healthy growth

Financial sector performance driven by strong credit and deposit growth

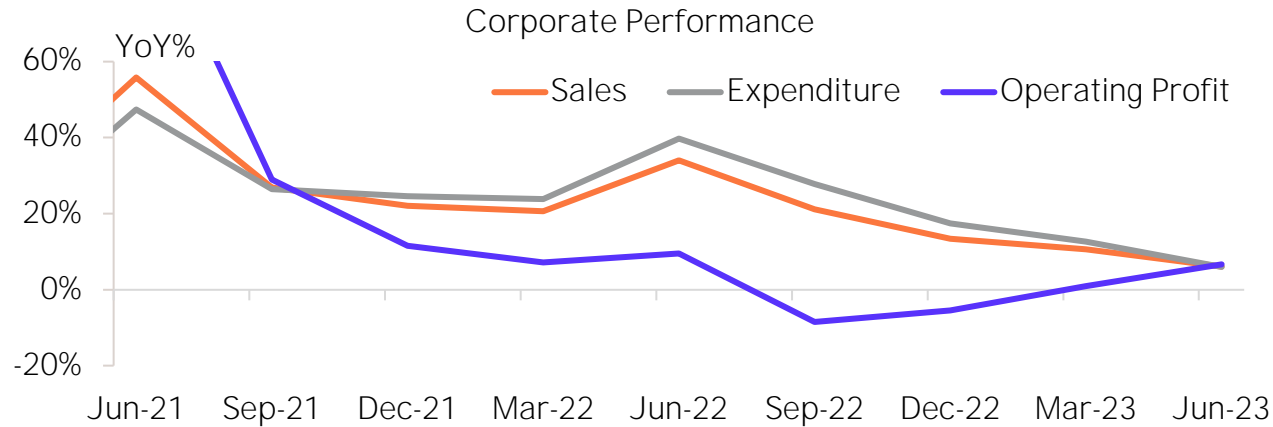
Industry growth dragged down by manufacturing sector. Manufacturing sector was weak despite strong operating performance by listed manufacturing companies

FY24 GDP growth expected to range between 6-6.5% YoY. Weak external demand, uneven monsoon distribution and global financial volatility pose downside risks to the outlook

On a positive note, the resurgence in private sector capital expenditure bodes well for long-term growth

Lower expenses offset weaker sales growth, boosting profits

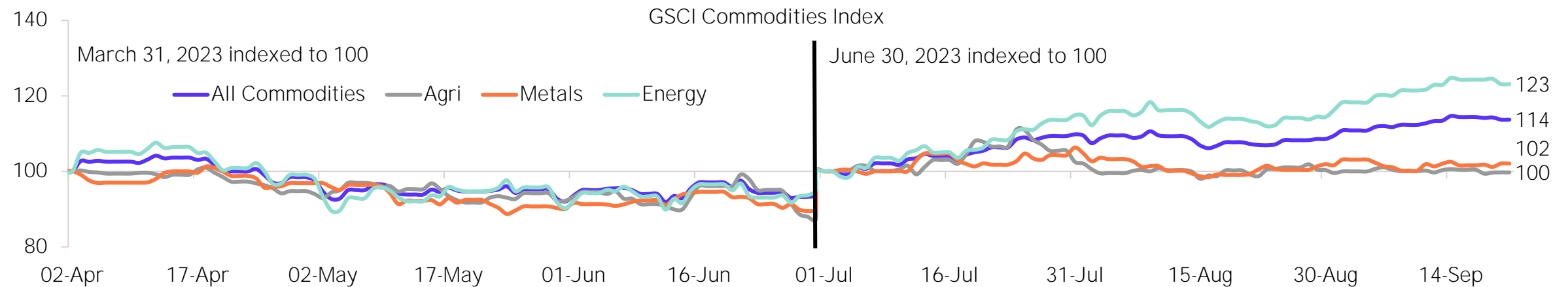
Rise in global commodity prices limits the potential for further improvements in operating profits



Corporations have seen sustained growth in operating profits due to reduced expenses (attributed to lower commodity prices), despite sluggish sales growth

Global commodity prices corrected sharply during the first quarter (Q1FY24) but have remained mostly flat to higher in the second quarter so far. Oil prices have risen sharply on OPEC+ supply cuts, fall in inventories and better than expected global growth

Impact on corporate profitability will not be immediate and may reflect in corporate performance with a lag of 1-2 quarters

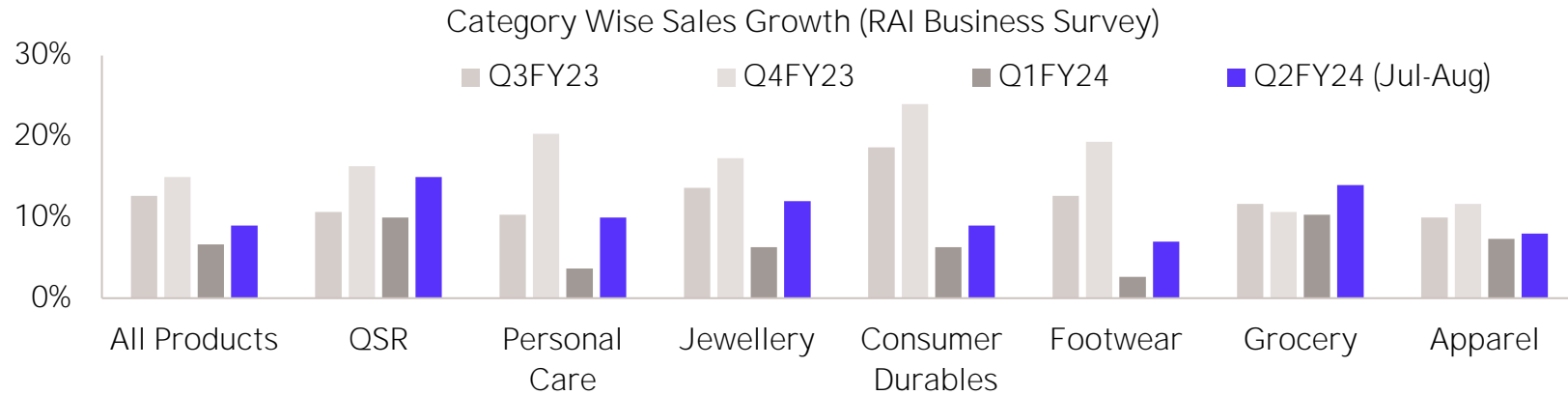


Source: ACE Equity, Bloomberg, 360 ONE Asset Research

Note: Corporate performance based on a set of 2278 listed non-financial companies

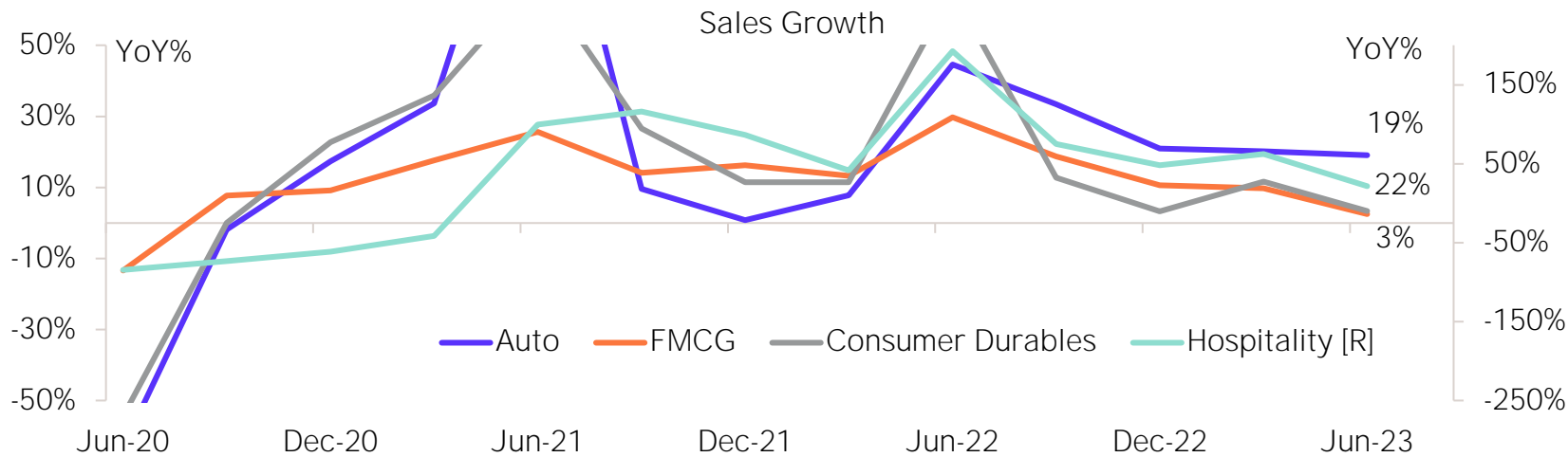
Retail sales show improvement in July following a lackluster Q1

FMCG and consumer durables witnessed muted sales growth, while Auto and Hospitality did well in Q1



Retail sales were muted across segment in Q1 as reported by the Retailers Association of India's Business Survey

In July-Aug'23, sales growth has improved marginally, but spike in food inflation could potentially impact purchasing power of consumers during the upcoming festive season



FMCG and consumer durables sales growth was muted in Q1FY24

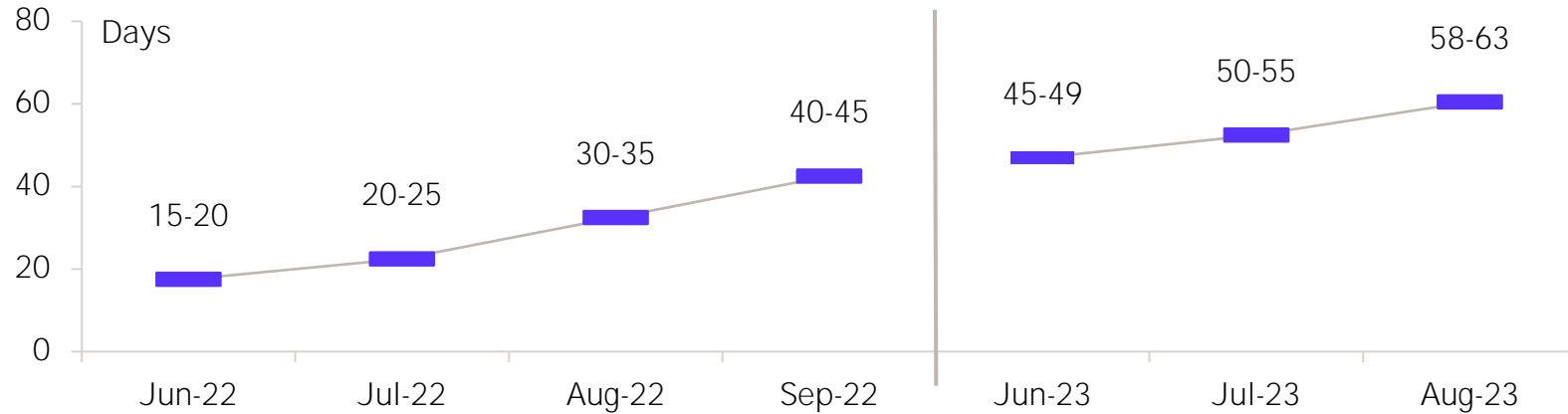
Hospitality continues to do well even though sales growth moderated in Q1

Auto sales growth remain robust, but leads to sharp rise in channel inventory before the festive season

Passenger vehicles dealer inventory reaches unprecedented levels

Two-wheeler inventories are much more efficiently managed, at significantly lower levels compared to last year

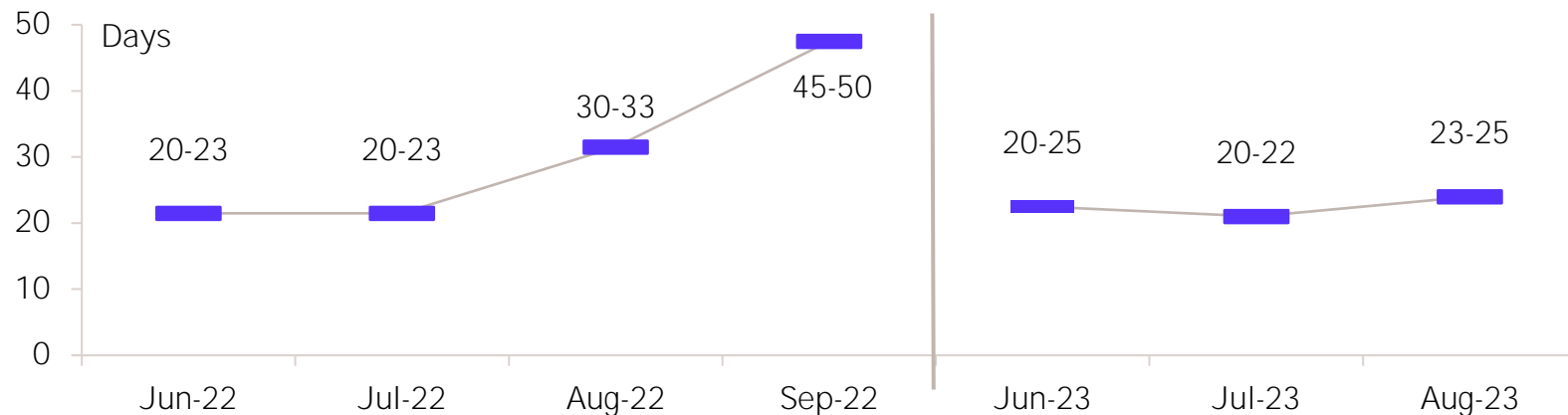
Dealer Inventory - Passenger Vehicles



Passenger vehicles inventory at a record high in August 2023. The passenger vehicles inventory ranged from 58 to 63 days in August, significantly higher than 30-35 days inventory in August 2022

OEMs expect strong sales during the festive season. There is limited space for further inventory addition at this point

Dealer Inventory - Two Wheelers Vehicles



Two-wheelers inventory at a much lower level at 23-25 days in August 2023, in comparison to 30-33 days in August last year

Uneven or deficient monsoon, weak rural recovery and elevated prices could potentially impact the forthcoming festive season auto sales

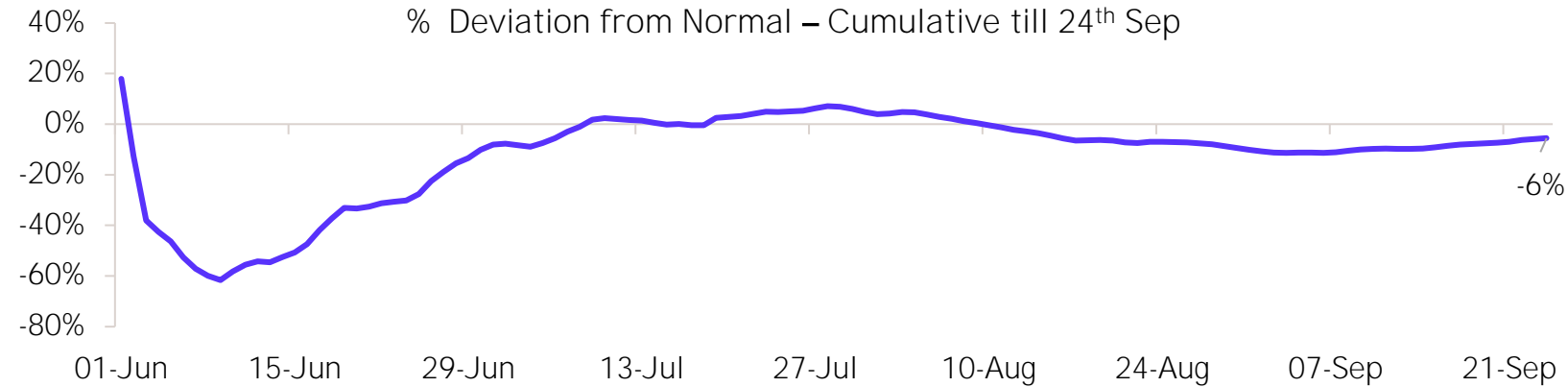
Source: FADA, 360 ONE Asset Research

Monsoon Update



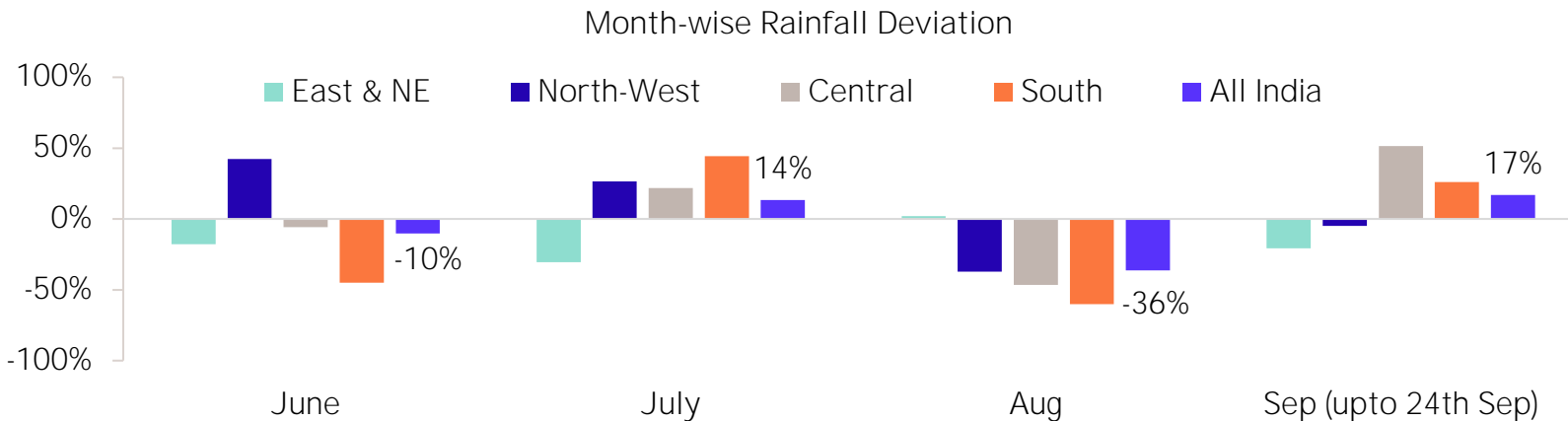
Monsoon slips back into deficit after July recovery

August experienced historically low rainfall, resulting in a substantial 36% monthly deficit



As of September 24th, the overall monsoon deficit stands at 6%, with normal monsoon in North-West and Central India

While North-West India has experienced a normal overall monsoon, the temporal distribution has been highly abnormal, characterized by heavy and concentrated rainfall in early July, which led to floods



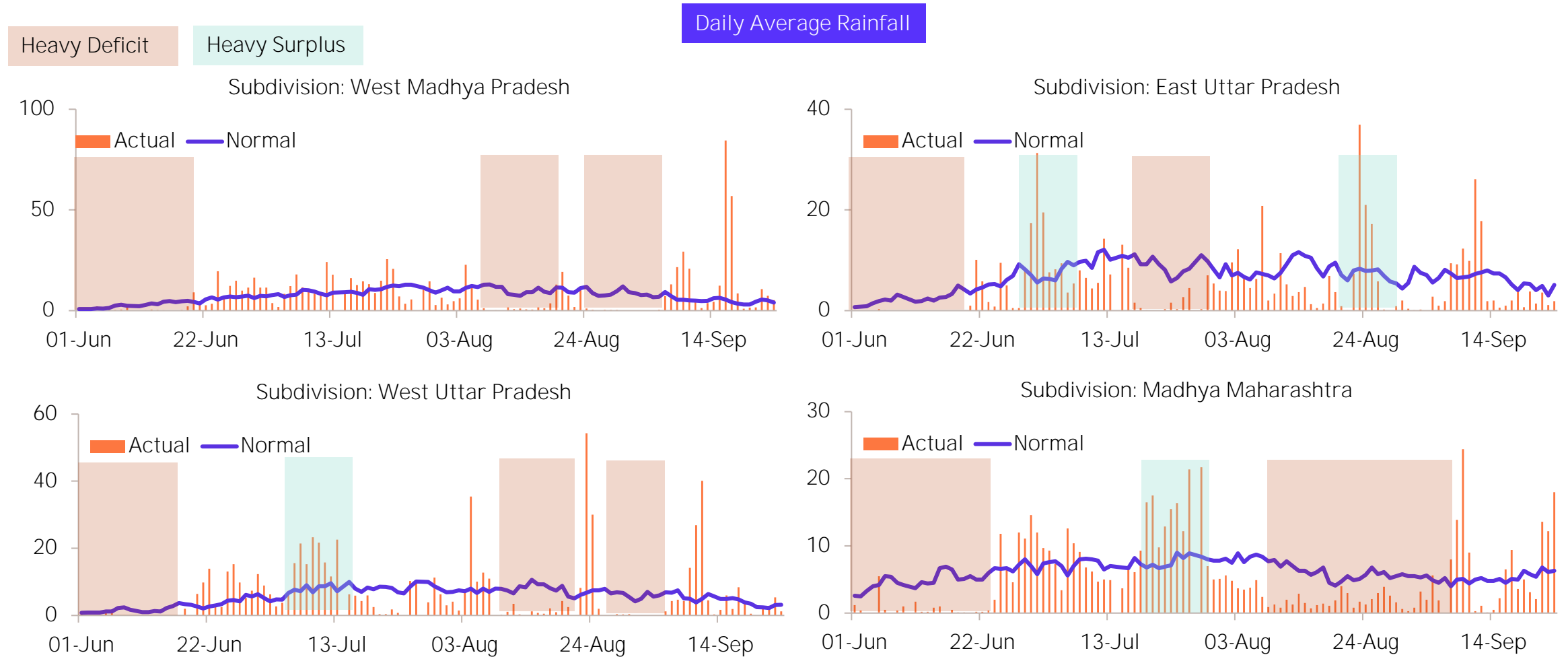
The July monsoon recovery faded as August saw record low rainfall. August's monthly rainfall deficit stood at 36%, a stark contrast to the previous month's surplus of 14%

While Southern and Central India have experienced heavy rainfall in September, other regions continue to grapple with deficits

Source: CMIE, IMD, 360 ONE Asset Research

Temporal and spatial distribution of monsoon has been uneven

Crop yields will be affected by rainfall deficits in certain regions and intense rainfall in others

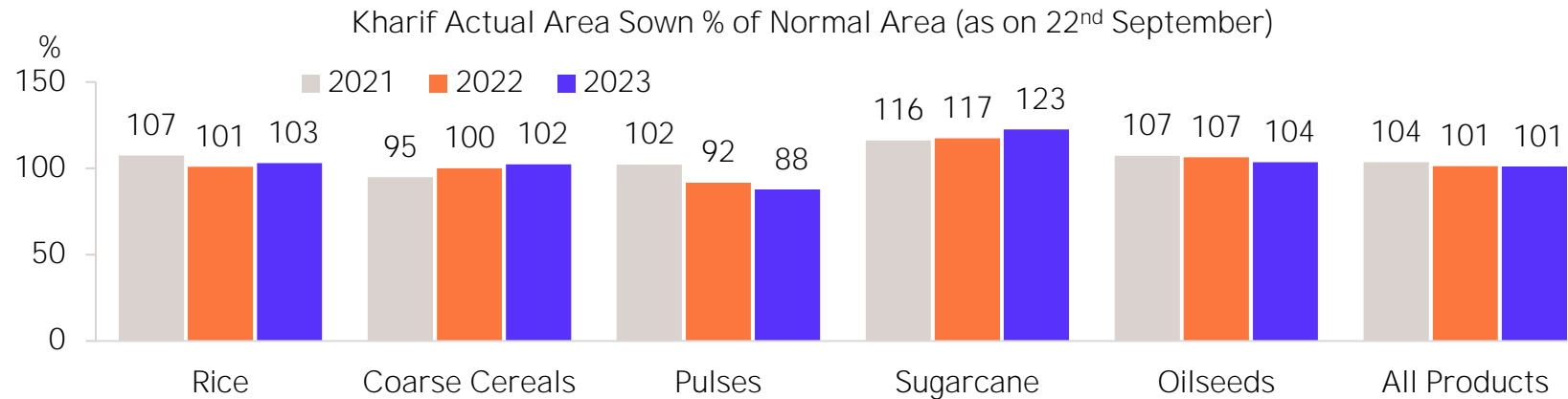


Source: CMIE, 360 ONE Asset Research

Note: Above 4 subdivisions account for nearly 25% of the net sown area

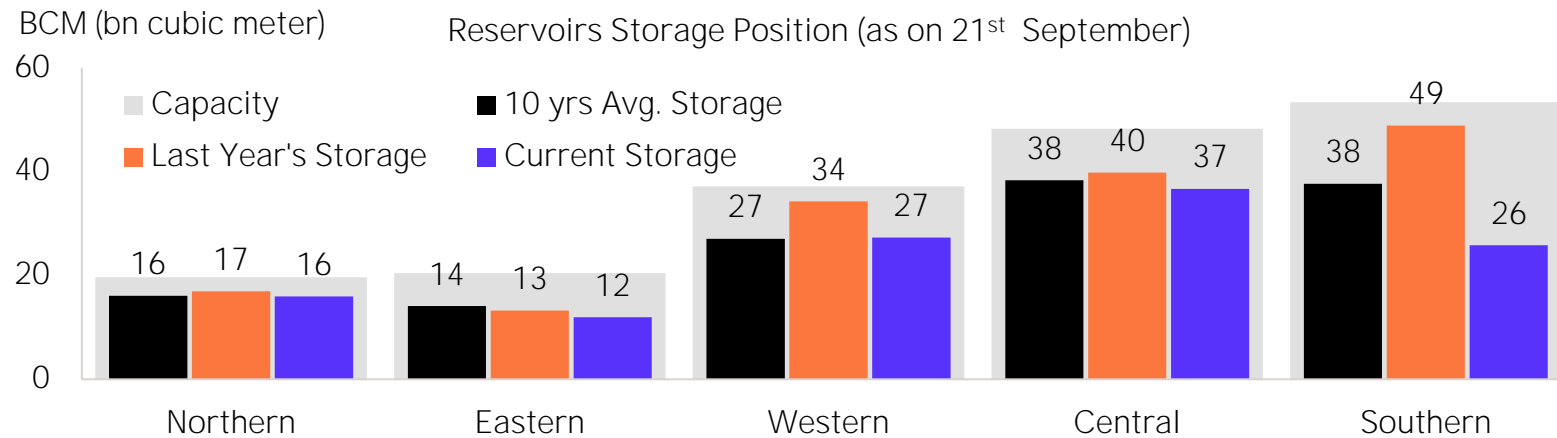
Weak pulses sowing pose inflation risks

Low reservoir levels in certain regions due to deficit rainfall could affect the rabi sowing season



Sowing of pulses has fallen significantly below the normal level. Pulse prices are already experiencing upward pressure, and weak production could further contribute to price increases

The area covered by other crops is either close to or exceeds the normal level. However, the uneven distribution of the monsoon could still affect crop yields, even if sowing remains normal



Reservoir levels in Southern India are significantly lower than the 10 yr. average

Low reservoir level could impact the upcoming rabi sowing season

Uneven monsoon, thus, poses risk to both inflation and growth outlook

Source: CMIE, CWC, 360 ONE Asset Research

Disclaimer

This document constitutes confidential and proprietary material and may not be reproduced or further distributed in part or full to any other person without the written permission of 360 ONE AMC. This document is the property of 360 ONE AMC and must be returned to 360 ONE AMC or its affiliates upon request. This document is provided for assistance only and is not intended to be used for taking investment decisions or otherwise. This document is not investment, legal, tax, or accounting advice. The recipients should also inform themselves, and should take appropriate advice, on the legal requirements and shall not rely on this document for any subscription, purchase, holding, exchange, redemption or disposal of any investments. The opinions expressed herein are the personal opinions of the author. Past Performance is not an indicator/guarantee of future returns. Investment in securities are subject to market risk. Whilst every care has been taken in preparing this document, 360 ONE AMC and its affiliates and agents to the fullest extent permitted by applicable law disclaim any liability or responsibility for any error or omission or inaccuracy or mistake of any nature or any consequences of the use of the material/ information displayed on this document. Notwithstanding the aforesaid, nothing set out above shall exclude liability for any undertaking, representation, warranty or other assurance made fraudulently. The information given in this document is not exhaustive and is subject to change without notice.



asset
360
ONE

