asset 360ONE

panorama

December 2023

Key Insights:

Margin expansion in manufacturing contributes to better-than-expected GDP growth

- India's GDP growth averaged 7.7% YoY in H1FY24, with FY24 GDP expected to be around 7% YoY
- Weak kharif production hindered agri growth, and rural recovery now relies on satisfactory rabi production
- Improvement in margins drives manufacturing growth. However, further margin expansion may be limited
- Services activity indicators across sectors indicate strong growth momentum

Consumption growth remains subdued, possibly on account of weak hiring activity

- Private consumption in H1FY24 recorded a muted growth of 4.5% YoY
- Staples volume growth remains subdued, discretionary consumption has also slowed down
- Auto sales during the festive season were robust, but passenger vehicle inventory remains alarmingly high
- Hiring slowdown is impacting consumption. Formal job creation is crucial for consumption recovery

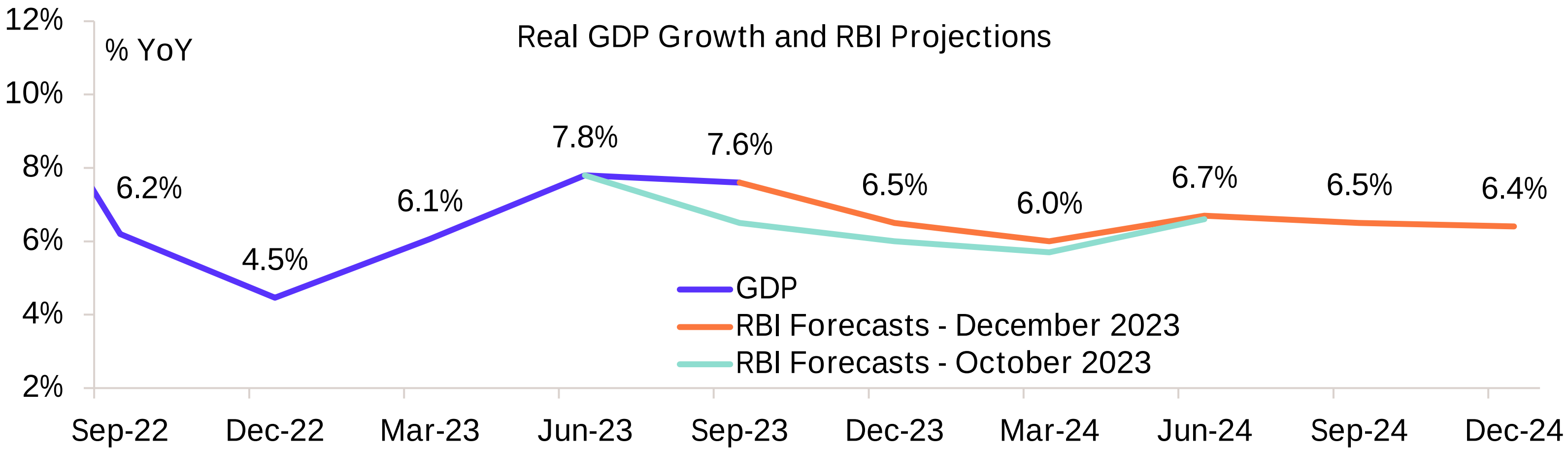
Industrial order books and funds raised by private corporates indicate a robust capex pipeline

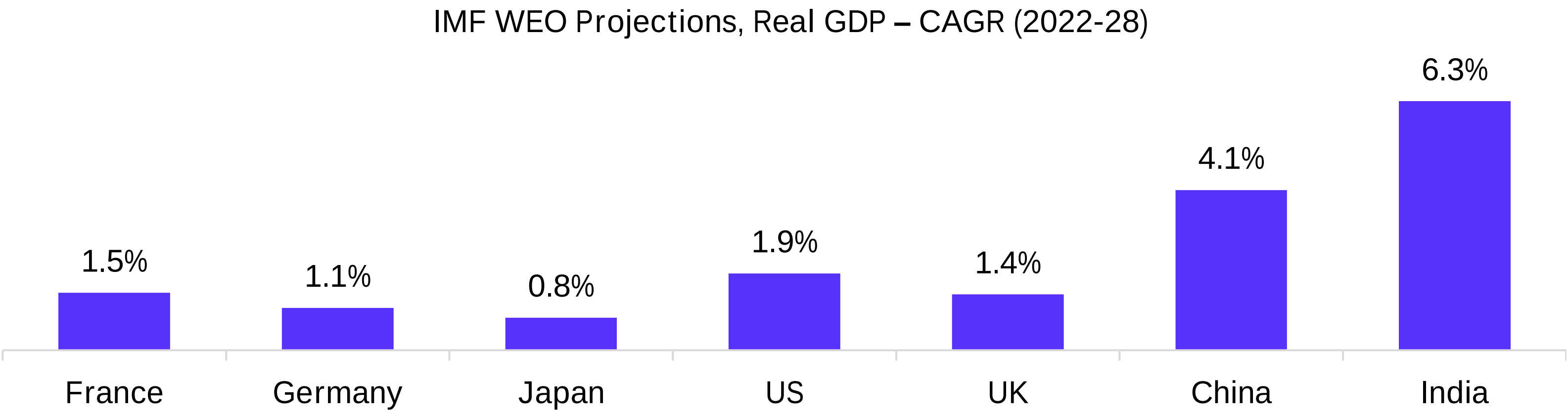
- Actual investments are currently running significantly above the pre-COVID trend
- Investments recorded a robust 9.5% YoY growth in H1FY24
- Capex by listed companies has shown steady improvement over the past three years
- Industrials witnessed record Q2 orders, and private corporate investment intentions rose significantly in H1

Growth Assessment & Outlook

RBI revises FY24 GDP growth to 7% YoY, from 6.5% in the previous policy

The IMF projects India to grow by a 6.3% YoY CAGR over the next 6 years, significantly higher than China's 4.1% YoY





RBI revised the FY24 GDP forecast upward by 50 bps to 7% YoY in the December 2023 policy, as the growth momentum remains robust

We also expect FY24 GDP to be around 7% YoY

It is essential for consumption to revive to sustain growth momentum

The recovery in rural consumption will hinge on good rabi production

Potential repo rate cuts in the next fiscal could provide a fillip to growth

India is firmly poised to be the fastest-growing large economy in the world

The recent slowdown in China, regulatory uncertainties, trade wars, etc., also make India a preferred investment destination

Source: RBI, IMF, 360 ONE Asset Research

India’s GDP growth averaged 7.7% YoY in H1FY24, beating expectations

Growth was driven by a robust services sector and a turnaround in the manufacturing sector in the September quarter

YoY%	Share	FY23		FY23	FY24
Sector		H1	H2		H1
Agriculture	15%	2.4%	5.1%	4.0%	2.4%
Industry	22%	2.3%	2.5%	2.4%	8.8%
Mining	2%	5.1%	4.2%	4.6%	7.6%
Manufacturing	18%	0.9%	1.7%	1.3%	9.3%
Electricity	2%	10.3%	7.5%	9.0%	6.4%
Services	63%	12.3%	6.9%	9.5%	8.3%
Construction	8%	10.7%	9.5%	10.0%	10.5%
Trade, Hotels, Transport, Communication	19%	20.1%	9.3%	14.0%	6.6%
Financial services, Real estate, Professional Services	22%	7.8%	6.4%	7.1%	9.0%
Public Admin, Defence & Other Services	13%	12.6%	2.6%	7.2%	7.7%
Real GVA	100%	8.6%	5.6%	7.0%	7.6%
Real GDP		9.5%	5.3%	7.2%	7.7%

The erratic and uneven monsoon impacted kharif production, keeping agriculture growth subdued

Improvement in operating profits boosted manufacturing sector growth in Q2

Construction activity remained robust, as indicated by double-digit growth in steel consumption and cement production

Trade+ growth normalised from a high base in the previous year

Financial Services+ witnessed strong growth on account of healthy credit and deposit growth. The real estate sector witnessed robust growth in residential launches and sales

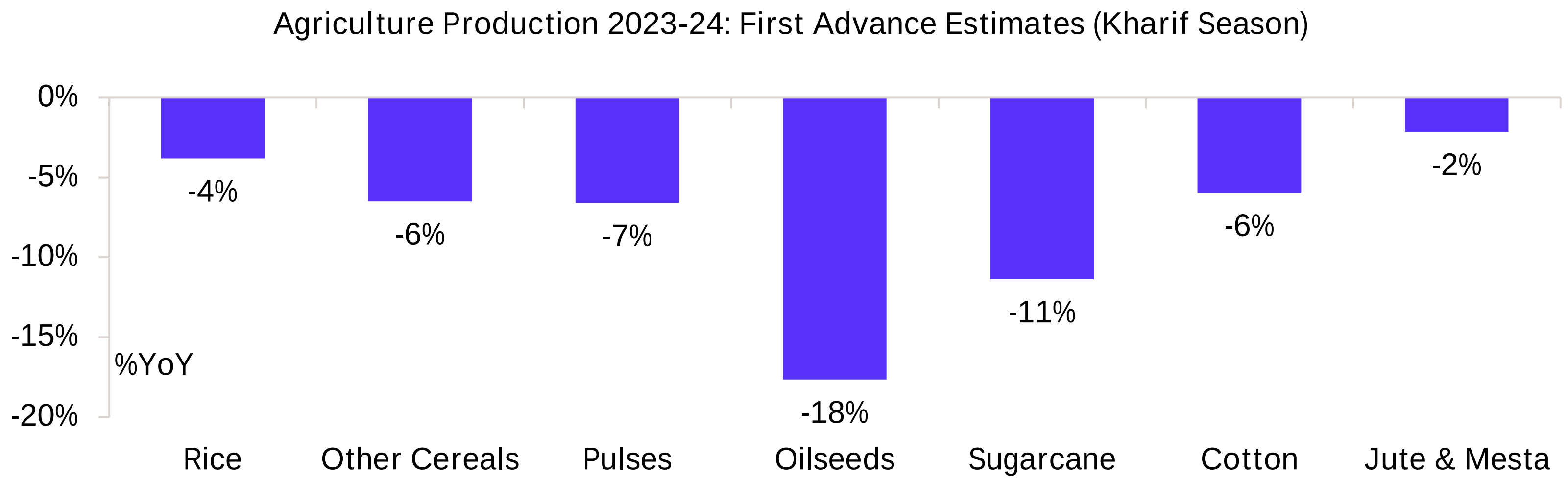
GDP growth in H1 was much higher than the market expectations

Source: MOSPI, 360 ONE Asset Research

Note: Gross Value Added – GVA, Gross Domestic Product – GDP, GDP = GVA + Indirect Taxes - Subsidies

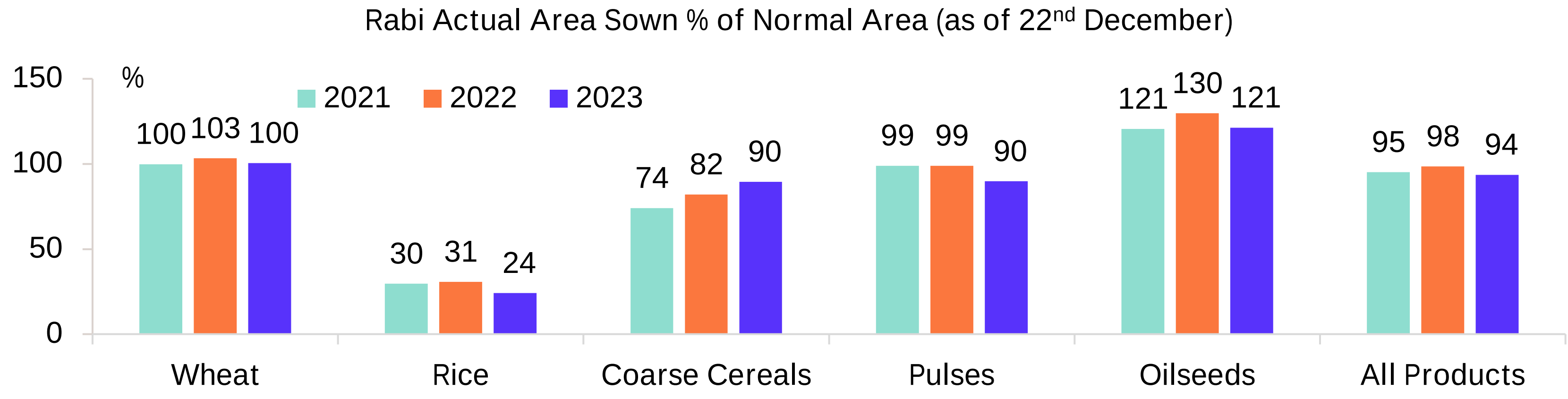
Poor production in the kharif season impacts agriculture growth

Rural recovery may be delayed if climatic factors adversely affect the Rabi season



According to the first advance estimates, there has been a broad-based decline in kharif production

Erratic monsoon and flooding in parts of northern India have affected crop yields



Rabi sowing in the current season started slowly but is steadily gaining momentum

Heatwaves in February-March in the past two years have impacted the output

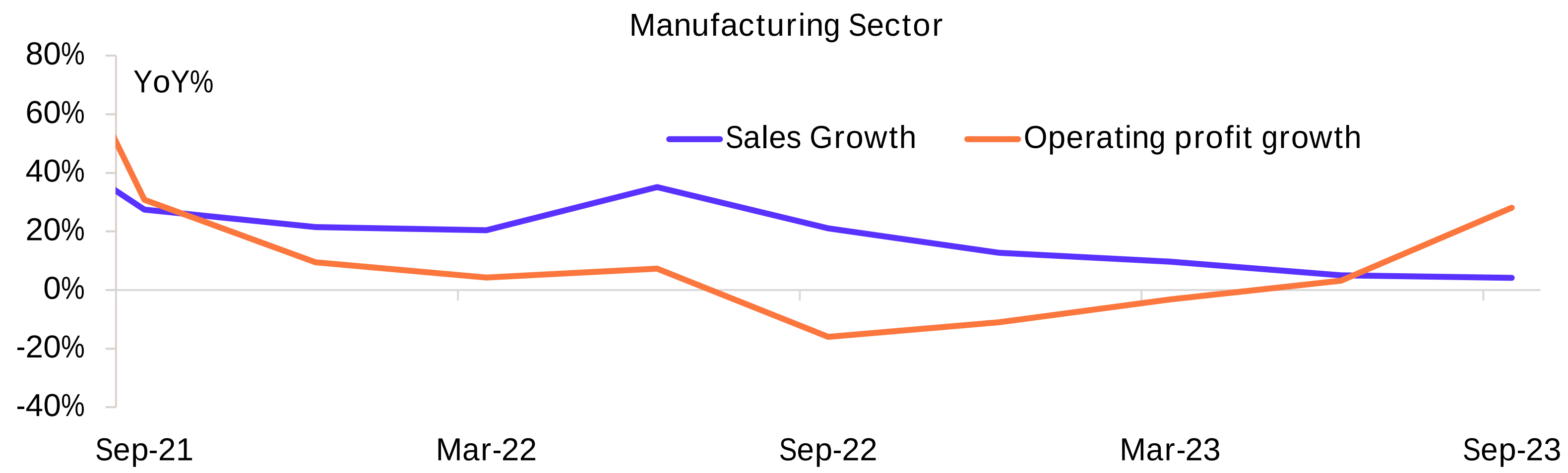
If the rabi season encounters adverse climatic conditions and production stays subdued, rural recovery will be affected

Source: CMIE, 360 ONE Asset Research

Note: 2023-24 refers to July 2023 to June 2024

Manufacturing Value Added driven by higher operating profit growth

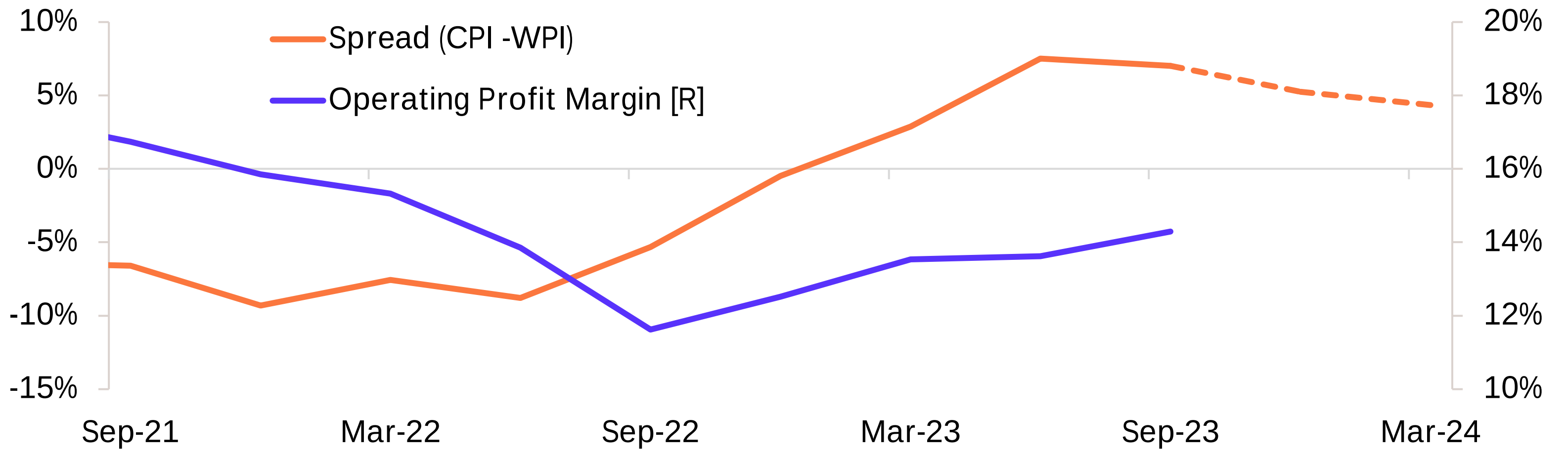
Further improvement in operating margins could be limited, as the spread between CPI and WPI appears to have peaked



Manufacturing sales growth continues to remain subdued in the September quarter

However, operating profit growth improved considerably due to an expansion in operating profit margins

Margins improved because of a decline in raw material costs



We expect the spread between the CPI and WPI to moderate going forward. Thus, further improvement in operating margins may be limited

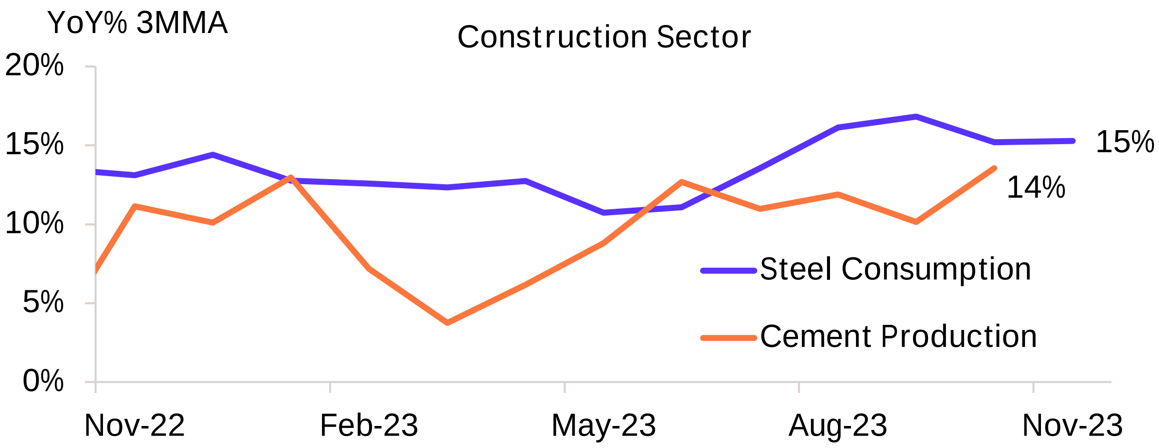
Source: ACE Equity, MOSPI, 360 ONE Asset Research

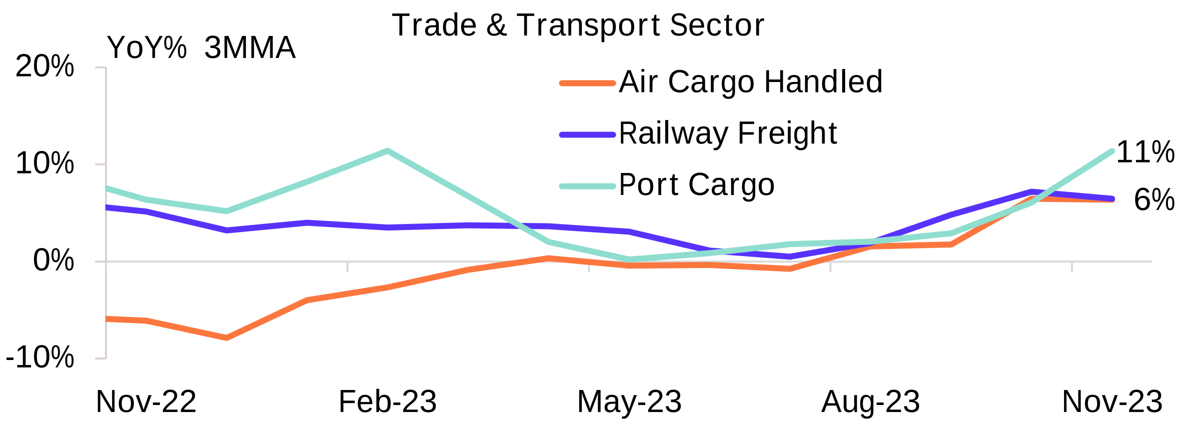
Note: Data based on a sample of 1490 manufacturing companies

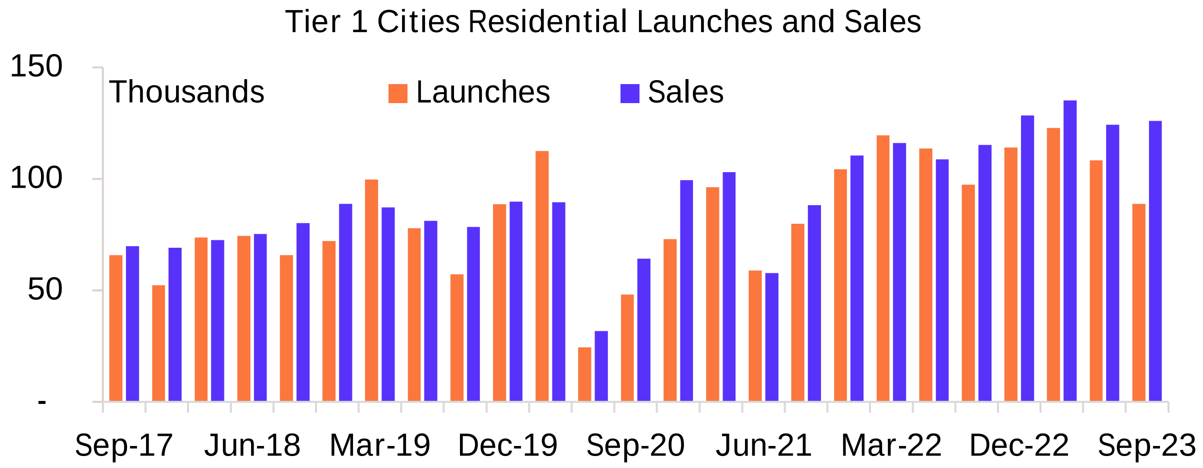
The services activity continues to demonstrate robust growth

Indicators across sectors—construction, trade, transport, real estate, and finance—signal strong growth momentum

asset 360 ONE







Construction – Steel consumption and cement production continue to post double-digit growth

Trade & Transport – Freight/cargo indicators across air, rail and port have witnessed steep improvement in growth in the December quarter so far

Financial Services – Credit and deposit growth continue to remain healthy at 16.5% YoY and 13% YoY, respectively, in December 2023

Real Estate – There has been a remarkable rebound in residential sales and launches following the pandemic-induced slowdown in real estate activity

Source: CMIE, Avendus Spark, 360 ONE Asset Research

Note: 3MMA – 3-month moving average

Investments record a robust 9.5% YoY growth in H1FY24

Private consumption growth continues to stay muted, as the rebound observed in Q1 did not sustain in Q2

asset 360 ONE

Real Growth YoY%	Share	FY23		FY23	FY24
		H1	H2		H1
Consumption Expenditure	68%	11.3%	2.3%	6.4%	4.6%
Private Consumption	58%	13.6%	2.5%	7.5%	4.5%
Government Consumption	10%	-0.9%	1.0%	0.1%	5.1%
Gross Capital Formation	36%	12.9%	6.6%	9.6%	8.6%
Fixed Investments	34%	14.7%	8.5%	11.4%	9.5%
Changes in Stocks	1%	2.2%	3.1%	2.7%	7.7%
Valuables	1%	-8.5%	-32.2%	-18.9%	-8.1%
Exports	23%	15.8%	11.5%	13.6%	-1.7%
Less Imports	26%	28.0%	7.7%	17.1%	13.5%
Real GDP	100%	9.5%	5.3%	7.2%	7.7%

Private consumption recovered to 6% YoY in Q1 but again underwhelmed in Q2 at 3.1% YoY

Government consumption picked up pace in Q2 as central government revenue expenditure rose

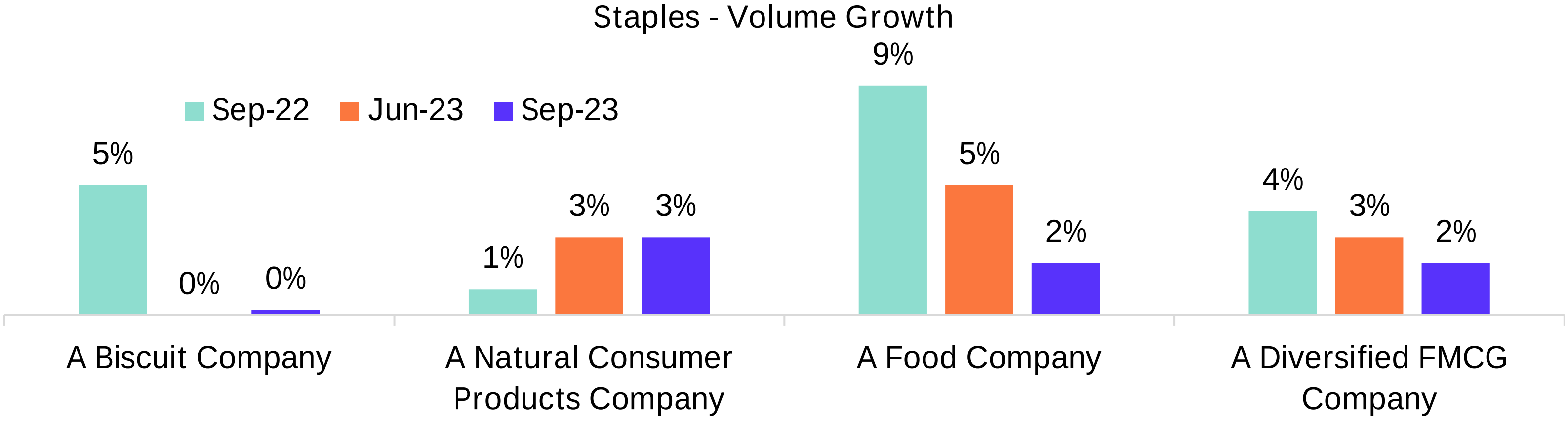
Investment growth remained robust in H1 at 9.5% YoY, up from 8.5% YoY growth in H2FY23

Net Exports (Exports – Imports) negatively impacted GDP growth as imports growth far outweighed exports growth in real terms in H1

Source: MOSPI, 360 ONE Asset Research

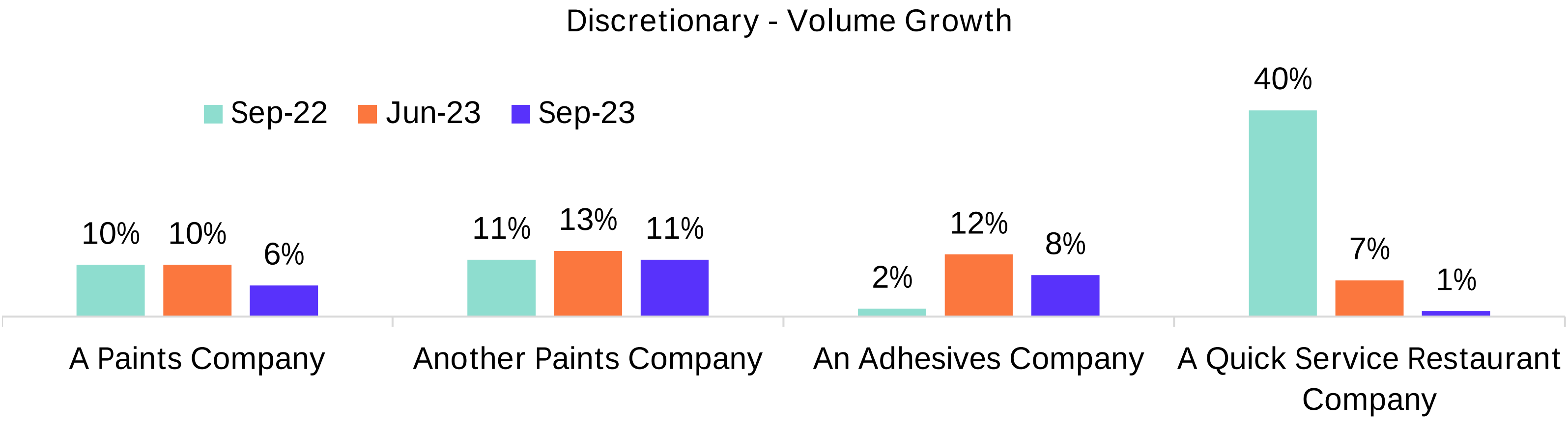
Staples volume growth remains subdued in Q2

Discretionary volume growth also slowed down in Q2 for a specific sample of companies



Consumer staples volume growth for listed corporates remained subdued, ranging 0-3% in Q2

Note that the growing preference for more affordable alternatives from regional players is also hindering the volume growth of branded products



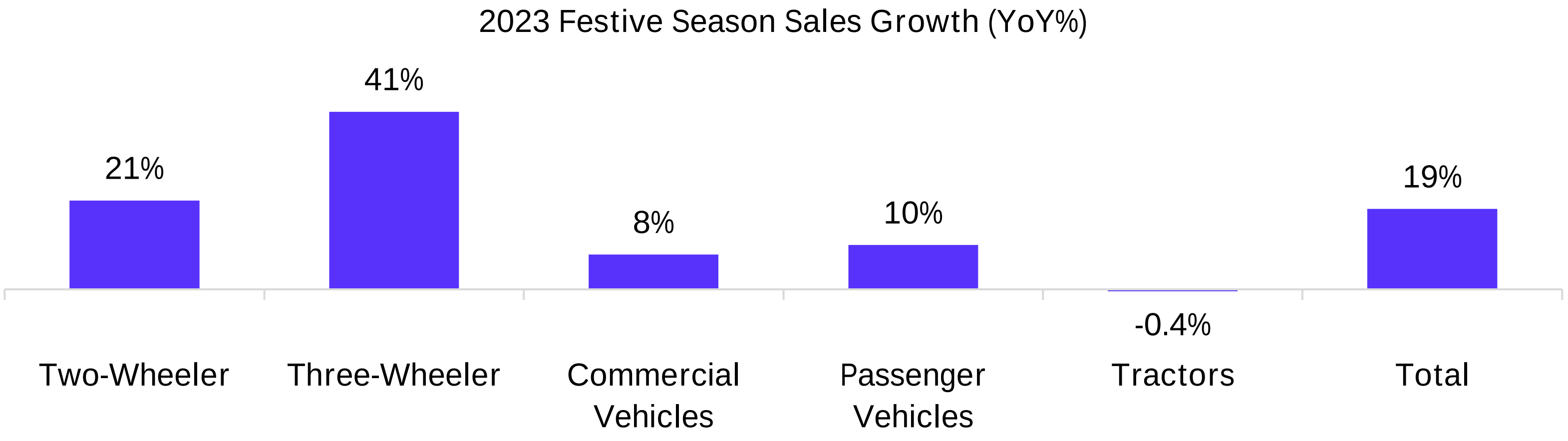
Discretionary consumption witnessed a sharp slowdown in volume growth in Q2 for a specific sample of companies

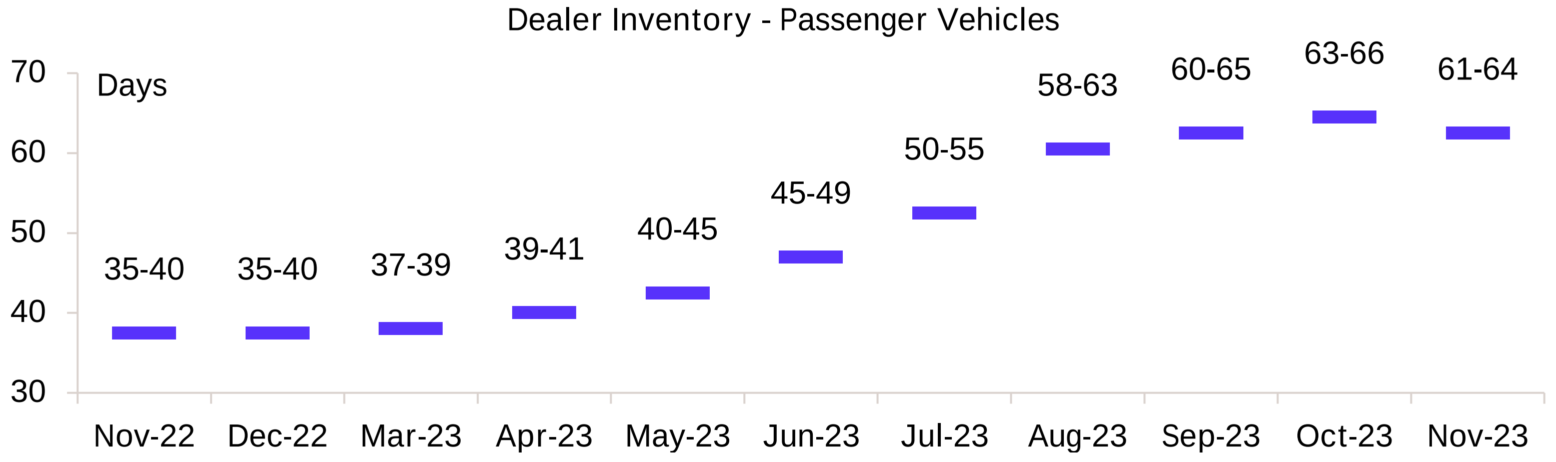
Consumer companies have refrained from passing on the reduction in raw material costs to end consumers, leading to an uptick in operating margins. Consequently, this has contributed to the subdued volume growth

Source: Avendus Spark, Kotak Institutional Equities, 360 ONE Asset Research

Robust festive season auto sales, led by 2- and 3-wheelers

High dealer inventory may lead to a slowdown in wholesale dispatches for passenger vehicles





Note: 42 days festive period ranges from 1st day of Navratri to 15 days post Dhanteras, Festive’23:15th Oct'23 - 25th Nov’23, Festive'22 – 26th Sep'22 - 6th Nov'22

Source: FADA, 360 ONE Asset Research

OEM - Original Equipment Manufacturer

Festive season sales in 2023 were robust, propelled by solid growth in 2-wheeler and 3-wheeler sales

Passenger vehicles and commercial vehicle sales were also healthy, while tractor sales experienced a minor contraction

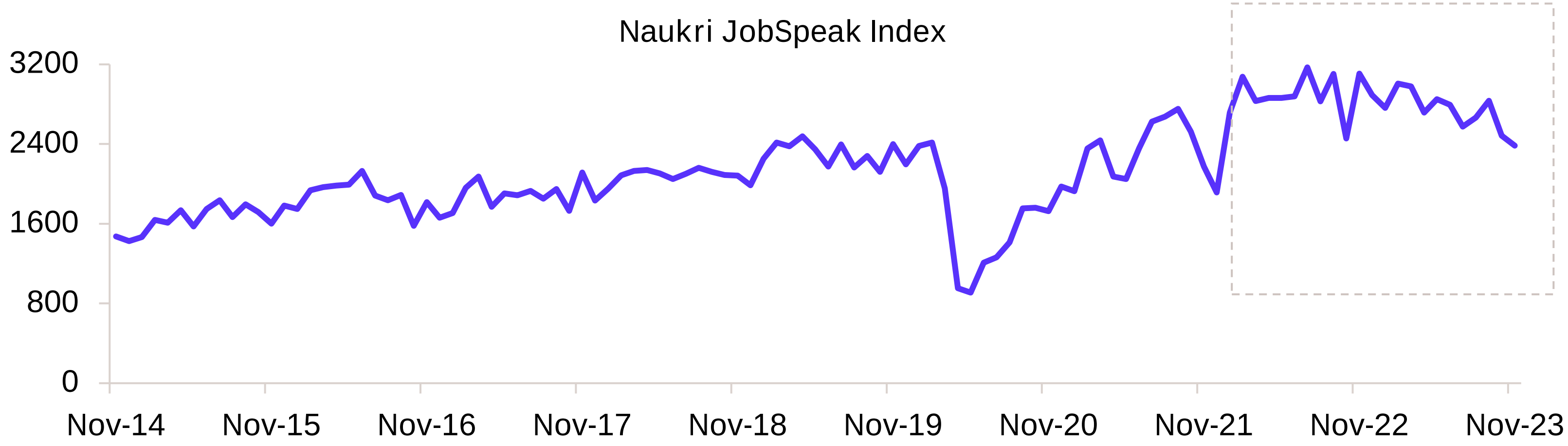
The Federation of Automobile Dealers Associations (FADA) release indicates that rural areas contributed significantly to the upswing in two-wheeler purchases

According to FADA, holding inventory beyond 30 days starts to erode dealer profitability as the financial burden is intensified by the high interest costs of inventory funding

PV inventory has slightly reduced but continues to remain above 60 days. PV OEMs would have to reduce dispatches of slow-moving vehicles, especially in the entry-level category

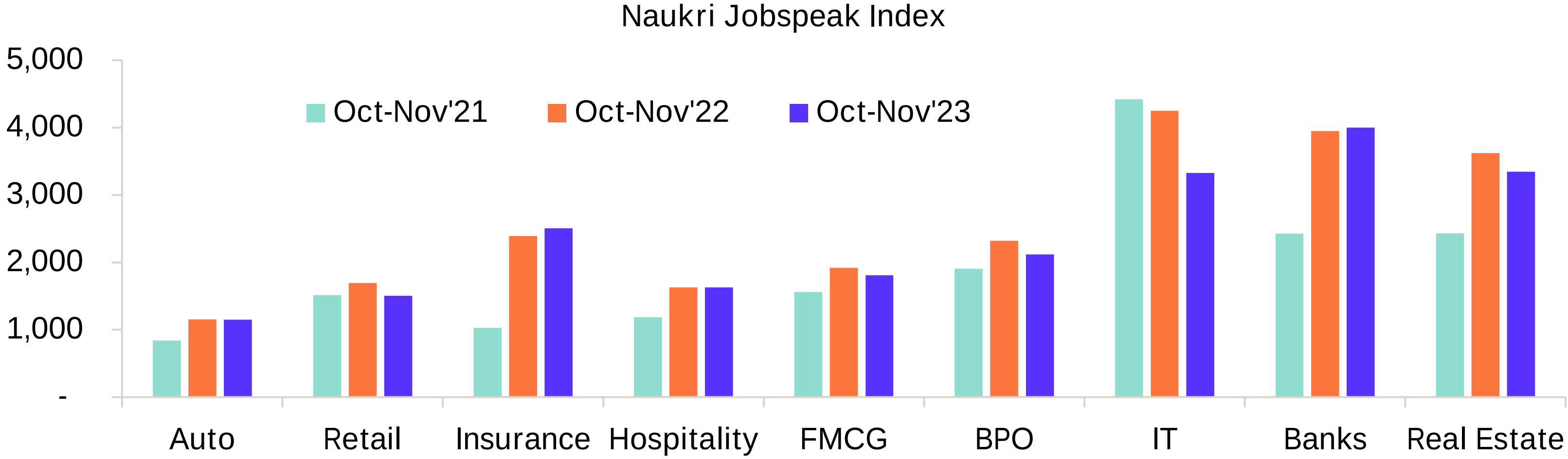
Weak white-collar employment impacting consumption

There has been a significant decline in IT sector hiring, while hiring in other sectors remains flat or lower



The Naukri Jobspeak index indicates a gradual slowdown in white-collar hiring over the past one-and-a-half years

The slowdown in hiring, coupled with poor-quality job creation (covered in detail in Panorama November 2023), is keeping consumption subdued



The decline in hiring by the IT sector has been quite steep over the past year

Hiring in other sectors is flat or lower than last year

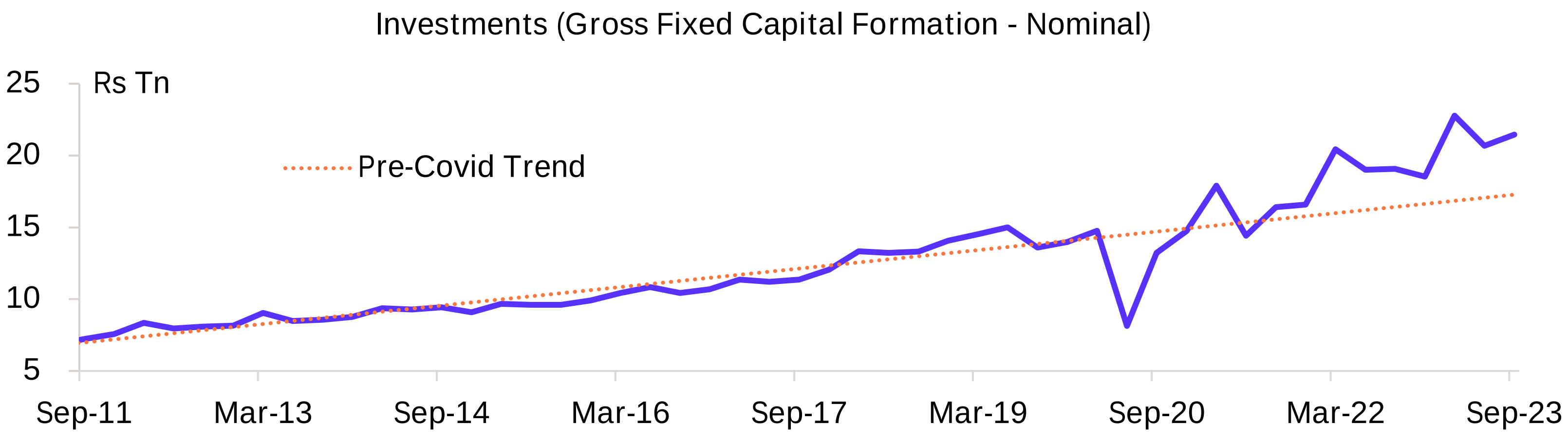
Formal sector job creation needs to improve for a sustainable recovery in consumption

Source: CMIE, 360 ONE Asset Research

Note: Industry-wise Jobspeak Index is average for Oct and Nov

Investments have substantially outpaced the pre-pandemic trend

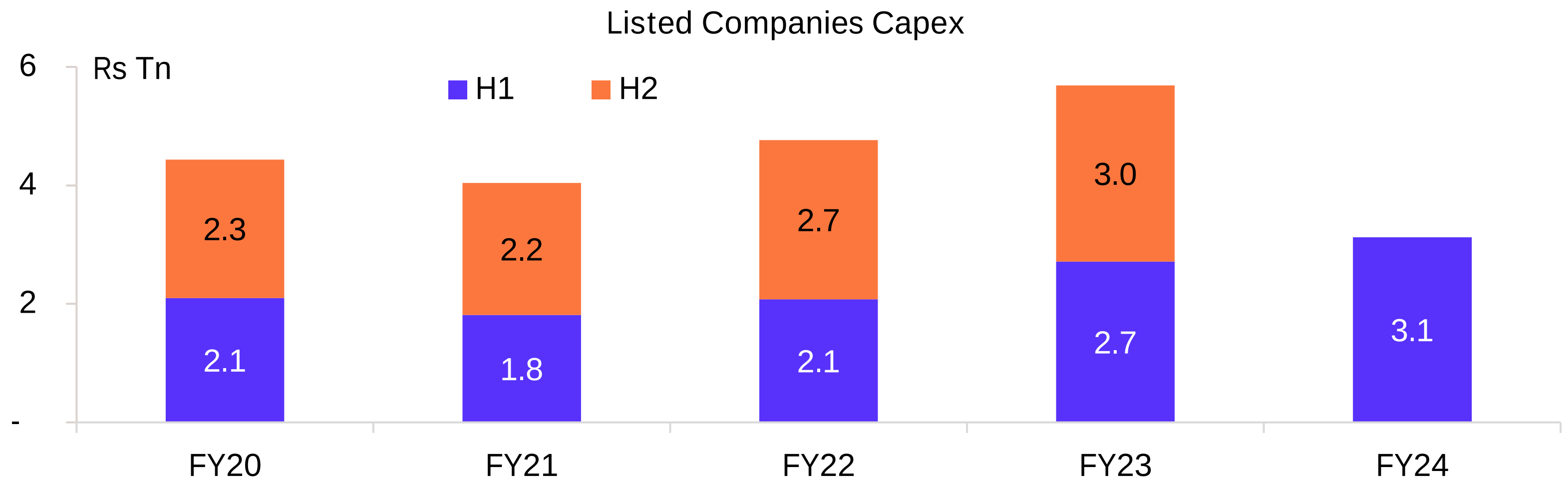
Capex by listed companies has consistently increased over the last three years



Recovery in investment post-pandemic has been quite robust

The actual investments are currently running significantly above the pre-COVID trend

While government capex has picked up substantially, private sector capex is also showing clear signs of recovery



Listed companies have demonstrated consistent growth in capex over the last three years

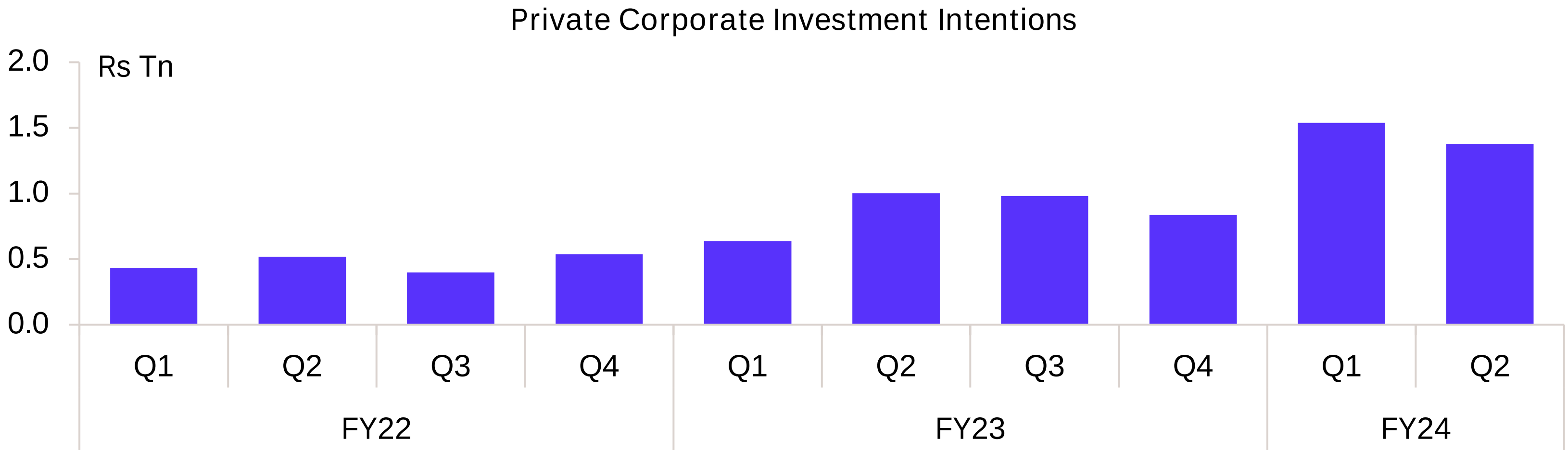
Capex in H1FY24, at Rs 3.1 tn, was 15% higher than the capex in H1 of the last fiscal year

Source: ACE Equity, MOSPI, 360 ONE Asset Research

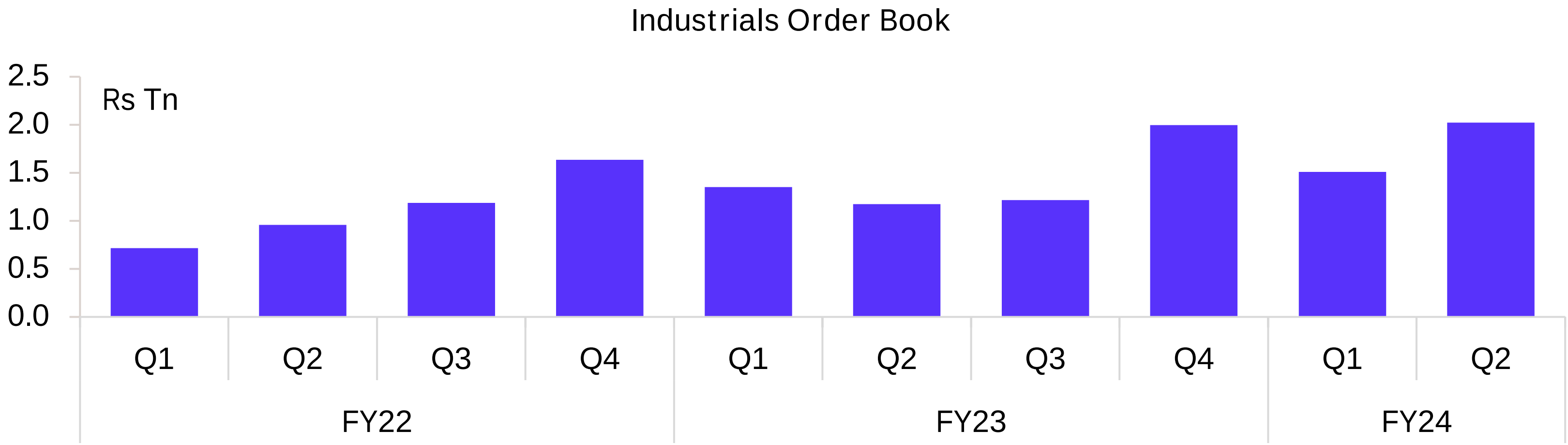
Note: Listed Companies Capex based on a sample of 870+ companies

The investment pipeline also remains quite robust

Both the industrial order book and private corporate investment intentions have shown a steep improvement in H1FY24



Private sector investments are beginning to pick up as funds intended for capital expenditure raised by corporates through different channels – from banks/ financial institutions (FIs), external commercial borrowings (ECBs), and initial public offerings (IPOs) – during H1FY24 were 60% higher than during H2FY23



Industrial companies also witnessed record orders in Q2, despite it not being a seasonally strong quarter

We anticipate the investment momentum to persist, fueled by the robust pipeline

Source: RBI, Investec, 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