FIRST LIGHT

28 February 2020

RESEARCH

BOB Economics Research | India's Road to Recovery

Stage set for growth rebound

SUMMARY

India Economics: India's Road to Recovery

India's economic slowdown is likely to bottom out in FY20 – we expect growth to tick up to 5.5% in FY21 and 6.2% in FY22 spurred by infrastructure spends, funded by strategic sale and divestment of CPSEs. This in turn will induce private sector asset and employment creation. India's young population, competitive service sector, low urbanisation and swift digitisation remain structural growth drivers. Lower corporate taxes and better ease of business should usher in higher corporate savings and thus a self-sustaining growth cycle.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	5,200
Cipla	Buy	570
Eicher Motors	Buy	25,000
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	205
Laurus Labs	Buy	510
Transport Corp	Buy	355
Ashok Leyland	Sell	64

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.34	(2bps)	(27bps)	(135bps)
India 10Y yield (%)	6.35	1bps	(21bps)	(113bps)
USD/INR	71.66	0.3	(0.3)	(0.6)
Brent Crude (US$/bbl)	53.43	(2.8)	(9.9)	(19.5)
Dow	26,958	(0.5)	(5.5)	3.7
Shanghai	2,988	(0.8)	0.4	1.2
Sensex	39,889	(1.0)	(3.1)	11.1
India FII (US$ mn)	**25 Feb**	**MTD**	**CYTD**	**FYTD**
FII-D	(8.4)	895.6	(673.3)	2,270.8
FII-E	(255.8)	1,741.7	3,114.4	10,503.6

Source: Bank of Baroda Economics Research

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INDIA'S ROAD TO RECOVERY

27 February 2020

Stage set for growth rebound

India's economic slowdown is likely to bottom out in FY20 – we expect growth to tick up to 5.5% in FY21 and 6.2% in FY22 spurred by infrastructure spends, funded by strategic sale and divestment of CPSEs. This in turn will induce private sector asset and employment creation. India's young population, competitive service sector, low urbanisation and swift digitisation remain structural growth drivers. Lower corporate taxes and better ease of business should usher in higher corporate savings and thus a self-sustaining growth cycle.

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Slowdown to bottom out in FY20: We believe India's GDP growth will bottom out at 4.8% in FY20 before recovering gradually to 5.5% in FY21. Stronger growth in FY21 would be led by (1) higher government spending backed by strategic divestments, (2) better credit availability in the economy, in particular with NBFCs and, (3) stronger consumption – rural (terms of trade) and tax cuts.

What's behind the current slump?: Consumption growth peaked in 2012 and has since decelerated – the current slump is similar to the 1997-2003 downcycle in many ways and has been accentuated by NBFC stress, low corporate profitability (savings), drop in capex by states, muted rural demand and lower global demand.

How growth will revive…: We believe higher government infrastructure spending (Rs 103tn pipeline over five years) funded via strategic sale of public sector units and disinvestment will form the bedrock of the capex cycle. This will not only improve productivity but also increase private sector participation and capex in the economy. An accommodative monetary and credit (long-term repo operations) policy should further aid a positive feedback loop.

…and why: India's corporate and consumer leverage is lower than other emerging markets. However, general government debt-to-GDP at 67% in FY19 (76% in FY08) is higher than other EMs (average 55%). Private sector efficiency ratios are higher which will induce a productivity-led growth cycle.

Structural trends favourable: India has key advantages in the form of (1) scope for urbanisation (34% in 2018 vs. 66.4% for the world) and hence urban housing (urban house ownership at 69%), (2) a relatively young population (avg. 29 years) and addition to the labour force (workforce participation rate 46.8% vs. 60% for G20), (3) movement of workers from agriculture to manufacturing and services, (4) digitisation, and (5) low corporate leverage (53% in 2018 vs. 161% in China).

KEY HIGHLIGHTS

- India's GDP growth expected to recover from 4.8% in FY20 to 5.5%/6.2% in FY21/FY22
- Structural drivers such as urbanisation, good demographics and digitisation to aid recovery
- Accommodative fiscal and monetary policy will further stimulate growth

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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