

RESEARCH
India Strategy | Monthly Wrap

Market correction offers long-term buying opportunity

BOB Economics Research | FY22 GDP

Q3FY22 GDP at 5.4%

SUMMARY
India Strategy: Monthly Wrap

- Record US inflation coupled with Russia's attack on Ukraine induced a significant 4% market correction (Nifty 500) in Feb'22
- Growth in macroeconomic indicators has moderated but remains positive, though the Russian aggression creates potent near-term headwinds
- Valuations have corrected from the peak even as fundamentals continue to improve. Any sharp correction can be used for long-term buying

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India Economics: FY22 GDP

India's GDP growth is estimated at 8.9% in FY22 (-6.6% in FY21). For Q3FY22, growth is pegged at 5.4% from 8.5% in Q2FY22. With steady revival and resumption of economic activities post Omicron, we expect Q4FY22 growth between 4.8-5.3%. This will push the GDP to grow by 9.1% in FY22, higher than government estimates. However, uncertainty due to escalation of geo-political risk (Russia and Ukraine crisis) might pose downside risk to these estimates.

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Daily macro indicators

Indicator	24-Feb	25-Feb	Chg (%)
US 10Y yield (%)	1.96	1.96	0
India 10Y yield (%)	6.76	6.75	(1)
USD/INR	75.65	75.29	0.5
Brent Crude (US\$/bbl)	99.1	97.9	(1.2)
Dow	33,224	34,059	2.5
Hang Seng	22,902	22,767	(0.6)
Sensex	54,530	55,859	2.4
India FII (US\$ mn)	23-Feb	24-Feb	Chg (\$ mn)
FII-D	6.6	(4.1)	(10.7)
FII-E	(380.4)	(888.6)	(508.3)

Source: Bank of Baroda Economics Research

BOBCAPS Research

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Russian attack spooks markets: The assault on Ukraine has alarmed global markets and stoked significant near-term uncertainty as the ongoing war pits Russia against virtually the entire developed world. Additionally, soaring US inflation and hence sharper rate hike expectations from the US Fed have contributed to substantial selling by foreign investors.

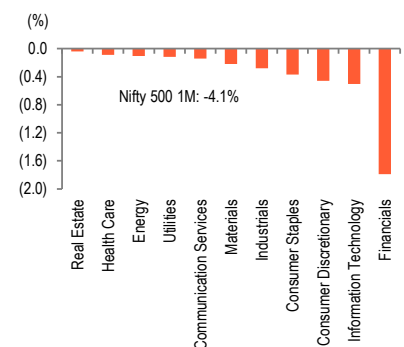
Global energy supply in peril: Russia is an important supplier of energy and metals to the world in general and western countries in particular. This makes all-out hostilities against it that much more difficult. Note that Russia's oil exports are higher than global spare capacity. Its gas supply to Europe is equivalent to ~30% of global LNG trade and is the only viable near-term alternative for the region, underscoring the enormity of policy encumbrances.

Defence sector could benefit: We believe the defence sector, which was facing ESG pressures, may receive a boost due to the potential shift from global disarmament efforts toward a more pro-defence mindset. This is already visible from the recent dramatic change in Germany's defence policy towards augmented military spends.

Market returns decline across the board: During Feb'22, the Nifty 50 index declined 3.1% (in INR terms) while the wider Nifty 500 index fell 4.1%. Midcaps and small-caps underperformed large-caps (Fig 2). Sector-wise, media (-10.1%) was hit hardest followed by the realty (-9.1%) and auto (-7.5%) (Fig 5). However, financials and IT contributed the most to the Nifty 500 decline (Fig 6).

Valuations moderating: Nifty valuations have started to moderate after being about one standard deviation over the five-year average for more than a year. ROE of Nifty stocks continues to rise on average, while net margin looks to have peaked. EPS growth on 12-month forward basis was trending upwards since Jan'22, though the Nifty is below its long-term average on one-year forward PEG ratio. Q3FY22 earnings were robust with 84% of Nifty 200 stocks either beating or meeting consensus revenue estimates. However, raw material inflation remains a headwind.

Nifty 500: Sector-wise contribution to Feb'22 returns



Source: Bloomberg, BOBCAPS Research



FY22 GDP

28 February 2022

Q3FY22 GDP at 5.4%

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Q3FY22 growth at 5.4%: India's GDP growth moderated to 5.4% in Q3FY22 from 8.5% in Q2FY22. This was led by moderation in both consumption, especially in government spending and investment. Both government and private consumption has slowed down in Q3FY22 at 3.4% (9.3% in Q2FY22) and 7% (from 10.2% in Q2FY22) respectively. Further, investment spending is down by 2% in Q3FY22 from 14.6% in Q2FY22. Notably, on a 2-year basis, GDP rose by 6.2% in Q3FY22 from 1.3% in Q2FY22. The improvement was attributed to both private consumption and government spending registering higher than the pre-pandemic levels at 7.6% and 3.1% in Q3FY22.

GVA growth slows: For Q3FY22, GVA growth eased to 4.7% from 8.4% in Q2FY22. Moderation was noticed across all broad base components. Agriculture growth slowed to 2.6% in Q3FY22 from 3.7% in Q2FY22. Similar picture was seen with mining (8.8% in Q3 from 14.25 in Q2FY22), manufacturing (0.2% from 5.6% in Q2), trade (6.1% in Q3 from 9.5% in Q2FY22) and financial services (4.6% from 6.2% in Q2FY22). Even growth in public administration eased to 16.8% in Q3FY22 (19.5% in Q2FY22). Furthermore, contraction in construction sector at (-) 2.8% in Q3FY22 from an increase of 8.2% in Q2FY22 dragged down the overall growth. On a 2-year basis, GVA growth has improved by 6.9% in Q3FY22 from 25 in Q2FY22. Financial services rose at a robust pace of 13.45 in Q3FY22 from 7.4% in Q2FY22. This was followed by public admin (13.4% from 7.4% in Q2FY22), construction (3.6% from 1% in Q2FY22) and electricity (5.2% from 5% in Q2). Growth in agriculture sector moderated marginally at 6.8% in Q3FY22 compared to pre-pandemic levels.

FY22 GVA at 8.3%: CSO has estimated India's GVA growth at 8.3% in FY22 compared with a contraction of (-) 4.8% in FY21. This is led by across the board increase in sectors with agriculture, industry, even services registering positive growth rate. India's GDP is expected at 8.4% after contracting by 6.6% in FY21. Growth is back in positivity territory led by favourable base effect with all the components back in green with both exports and imports improving by 21.1% and 29.9% respectively in FY22. Consumption spending too was rose by 7.6% in FY22 after declining by 6% in FY21. Compared to pre-pandemic levels GDP is expected to be 1.8% in FY22.

Our Estimates for FY22 at 9.1%: We expect India's to clock 9.1% growth in FY22 tad higher than the government estimates (8.9%). This will be on the back of muted impact of Omicron variant and state lifting lockdown restrictions. Resumption of economic activity at much faster pace than initially anticipated will push Q4FY22 growth higher. However, geopolitical risk fuelled by uncertainty of Russia-Ukraine crisis pose downside risk to these estimates.



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Note: Recommendation structure changed with effect from 21 June 2021

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