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FIRST LIGHT

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RESEARCH

BOB Economics Research | Q2FY19 GDP

Q2 growth moderates

SUMMARY

India Economics: Q2FY19 GDP

India's GDP growth decelerated to 7.1% in Q2FY19 from 8.2% in Q1FY19 led by lower domestic consumption and margin pressure in manufacturing sector. Higher imports too were a drag on growth. However, investment spending accelerated to 12.5% (10% in Q1). So did government spending to 12.7% (7.6% in Q1FY19). Manufacturing margins will improve with lower oil prices. So would consumption. However, growth is likely to be lower in H2 because of fiscal pressures, slowdown in NBFC sector and base effect. RBI to hold rates.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Axis Bank	Buy	750
Cipla	Buy	615
GAIL	Buy	525
Reliance Industries	Buy	1,340
TCS	Buy	2,360

MID-CAP IDEAS

Company	Rating	Target
Greenply Industries	Buy	250
L&T Infotech	Buy	2,070
Laurus Labs	Buy	495
Mayur Uniquoters	Buy	565
Mphasis	Buy	1,360

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	3.03	(3bps)	(9bps)	64bps
India 10Y yield (%)	7.61	(4bps)	(22bps)	58bps
USD/INR	69.85	1.1	5.2	(8.6)
Brent Crude (US$/bbl)	59.51	1.3	(21.6)	(5.7)
Dow	25,339	(0.1)	1.9	5.8
Shanghai	2,567	(1.3)	(0.0)	(23.1)
Sensex	36,170	1.3	6.7	7.6
India FII (US$ mn)	**28 Nov**	**MTD**	**CYTD**	**FYTD**
FII-D	100.1	943.5	(7,517.7)	(7,763.7)
FII-E	161.6	720.1	(5,038.0)	(7,163.5)

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

बैंक ऑफ़ बड़ौदा
Bank of Baroda
India's International Bank

Q2FY19 GDP

30 November 2018

Q2 growth moderates

BOB Economics Research
+91 22 6138 9300
research@bobcaps.in

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GVA growth moderates, led by manufacturing: India's Q2FY19 GVA growth moderated to 6.9% from 8% in Q1FY19 led by sharp deceleration in industrial growth to 6.8% in Q2FY19 from 10.3% in Q1FY19. Manufacturing growth slipped to 7.4% in Q2FY19 from 13.5% in Q1FY19 even as IIP growth was relatively stable in the two quarters. The variation is a result of margin pressure. Agriculture sector also saw some dip to 3.8% in Q2FY19 compared with 5.3% growth seen in Q1FY19. On the other hand, services sector growth inched up to 7.5% in Q2FY19 from 7.3% in Q1FY19. Within services, public administration saw an upward tilt because of higher government spending at 12.7% in Q2FY19 versus 7.6% in Q1FY19. Financial, real estate etc. and trade, hotels etc. reported stable growth in both the quarters.

Investment inches up, so do imports: Investment spending continued to grow in double-digits at 12.5% in Q2FY19 compared with 10% in Q1FY19. This bodes well for sustained recovery in capex cycle in the medium-term. However, consumption spending at 7% in Q2FY19 dragged down growth (8.6% in Q1FY19). Imports increased by 25.6% in Q2FY19 from 12.5% in Q1FY19 and thus contributed to deceleration seen in GDP growth. However, imports are expected to moderate as oil prices have receded. Exports registered another quarter of double-digit growth at 13.4% and would aid in growth.

Growth to moderate in H2: H1FY19 GVA growth is now at 7.4% compared with 5.8% in H1FY18. We expect it to slow down to 6.9% in H2. First, government spending will increase at a lower pace than H1 as fiscal deficit is already at 103.9% of BE. Second, credit off-take by NBFC's will be lower than 21.2% increase seen in FY18 because of liquidity constraints facing the sector. Third, the base effect remains adverse. While lower oil prices are a positive for India, RBI would like to look at durability of the decline and thus hold rates.

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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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