

Week of 30th November 2020

What's on our mind this week?

India's recovery is swift but can it continue?

Last week India reported its 2Q FY21 GDP growth numbers which came better than estimates. The GDP for the quarter ending 30th September 2020 declined by 7.5% yoy beating consensus which was forecasting the GDP to contract by 8.8% yoy for 2QFY21. To put this in perspective, India's GDP growth recovered strongly on a sequential basis as GDP for the preceding quarter ending 30th June 2020 had dropped by a jaw-dropping 23.9% yoy. Recovery has picked up pace in August and September driven by festive season demand and the unlocking of the economy.

While growth in agriculture was expected, manufacturing activity showed positive growth in 2Q FY21. While top line growth declined across most sectors, operating margins have shown improvement driven by lower raw material costs which fell by 23% yoy for Nifty 500 companies and by cost cutting measures undertaken by companies during the quarter leading to positive growth in manufacturing GVA, or Gross Value Added. Manufacturing GVA expanded after four quarters to 0.6% in 2Q FY21 in line with improvement witnessed in the index of industrial production which declined by 6.7% yoy in 2Q FY21 vs. a decline of 40.4% yoy in 1Q FY21 and strong auto sales numbers which posted a 17% yoy growth in 2Q FY21 as dealers stocked up to cater to the enhanced demand in the festive season. Onset of festive season is likely to have supported manufacturing production in recent months. Large Indian consumer companies like Hindustan Unilever, Amul, Britannia, ITC, Marico, Emami, Parle and Dabur mentioned that their spending on advertising and promotion was back to pre-Covid levels amidst a pickup in consumer demand.

While 2Q FY21 GDP growth is pointing towards a strong economic recovery, one should remain mindful of the risks. After an initial rebound, urban consumption demand seems to be flattening. A rise in domestic infection cases and the imposition of new lockdown restrictions in various Indian states are expected to weigh on consumer demand over the coming months. A second wave of infection in India and a resurgence of COVID globally

could restrict the pace of recovery as signs of moderation in economic indicators were visible in the months of October and November 2020.

Commodity prices have risen in the recent weeks, putting pressure on input costs. Export recovery continues to remain uncertain and support from government capex remains weak amidst fiscal pressure. Consensus expects an improving GDP growth trajectory with a GDP decline of 3.7% for the quarter ending December 2020 (i.e. 3Q FY21) before moving to a marginally positive 0.5% growth in 4Q21 followed by a 9% GDP growth for FY22 (e). While we believe India is heading towards a path of recovery, after taking into account the diverse risks we remain cautiously optimistic about its economic recovery in the coming quarters.

The information contained herein is issued by JK Capital Management Limited. To the best of its knowledge and belief, JK Capital Management Limited considers the information contained herein is accurate as at the date of publication. However, no warranty is given on the accuracy, adequacy or completeness of the information. Neither JK Capital Management Limited, nor its affiliates, directors and employees assumes any liabilities (including any third party liability) in respect of any errors or omissions on this report. Under no circumstances should this information or any part of it be copied, reproduced or redistributed.