PRESS RELEASE

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GDP growth likely to remain resilient at 7.5% in Q2 2026-27 despite external and monsoon headwinds: ICRA

Rating agency ICRA projects the year-on-year (YoY) GDP growth to have eased slightly to a five-quarter low of 7.5% in Q2 2026-27 from 7.8% in Q1 2026-27. The slowdown is expected to be mild but broad-based, led by agricultural (likely to ease to +0.2% in Q2 2026-27 from +3.6% in Q1 2026-27), industrial (+7.2% in Q2 2026-27 against +7.7% in Q1 2026-27) and services (+9.1% in Q2 2026-27 against +10.0% in Q1 2026-27) sectors.

The overall growth in gross value added (GVA) is likely to dip to 7.2% in Q2 2026-27 from 8.2% in Q1 2026-27. This is ~0.3 percentage points lower than the projected GDP growth, with the latter expected to be supported by a healthy expansion in net indirect taxes on products.

Aditi Nayar, Chief Economist, Head-Research & Outreach, ICRA said: "The robustness in high-frequency data across the industrial and services sectors for Q2 FY2027 portends a healthy economic growth in these segments in the quarter ending September 2026, belying sustained external headwinds. However, sub-par monsoons are expected to have weighed on agri GVA growth in the quarter, amid the dip in kharif sowing and a likely adverse impact on crop yields. Moreover, growth in the Central Government's non-interest revenue as well as capital spending slowed sharply in this quarter. Overall, ICRA projects the GDP growth to ease slightly to 7.5% in Q2 2026-27 from 7.8% in Q1 2026-27, exceeding the Monetary Policy Committee's forecast of 7.2% for the quarter."

"While trends for H1 2026-27 were quite healthy and unexpectedly resilient against the global headwinds, ICRA expects GDP growth to moderate in H2 2026-27, amid the adverse impact of the deficient rainfall and rising inflation on demand, elevated input costs on business margins, and the high base related to the GST rate rationalisation. This would bring down the 2026-27 GDP growth to 7.1%," Nayar added.

ICRA estimates that industrial GVA growth moderated to 7.2% in Q2 2026-27 from 7.7% in Q1 2026-27, led by the manufacturing and mining sectors. As per India's Index of Industrial Production data, the pace of expansion in manufacturing output volumes improved to a series-high of 8.1% in Q2 2026-27 from 6.9% in Q1 2026-27, led by 14 of the 23 sub-segments, including the auto-related segments (aided by strong demand) such as motor vehicles, trailers & semi-trailers (to +22.7% from +15.3%) and other transport equipment (to +24.2% from +19.5%), coke and refined petroleum products (to +2.6% from -1.8%), electrical equipment (to +31.8% from +27.0%), and other non-metallic mineral products (to +11.6% from +7.6%).

Besides, as per the financial data for a sample of 895 listed manufacturing companies, the YoY growth in aggregate revenues accelerated in Q2 2026-27 vis-à-vis Q1 2026-27. Moreover, aggregate profit after tax (PAT) of this sample set reverted to a robust YoY expansion in the quarter, following the contraction seen in Q1 2026-27, led by a jump in profits of the oil refining segment. Excluding refining companies, the aggregate PAT of the manufacturing sector increased at a slightly lower, albeit healthy pace in Q2 2026-27. Overall, ICRA estimates the manufacturing GVA growth to print at a healthy ~8.2% in Q2 2026-27, slightly lower than 9.2% in Q1 2026-27, with the improvement in volume growth as well as profitability getting somewhat offset by an adverse base (Q1 2025-26/Q2 2025-26: +8.3%/+10.0%).

Despite the sub-par monsoon, the YoY contraction in mining volumes widened to a series-low of 3.9% in Q2 2026-27 (+14.0% in Q2 2025-26) from 1.2% in Q1 2026-27 (+3.5% in Q1 2025-26), dampened by an elevated base. ICRA expects the contraction in the mining GVA to widen further in Q2 2026-27 (+21.6% in Q2 2025-26) from 2.4% in Q1 2026-27 (+12.4% in Q1 2025-26).

In contrast, the growth in utilities output rose to 10.0% in Q2 2026-27 (+3.8% in Q2 2025-26) from 8.3% in Q1 2026-27 (-0.2% in Q1 2025-26), with the deficient monsoons boosting electricity demand and generation. Moreover, trends in most construction-related indicators were positive in Q2 2026-27, aided by the deficient rainfall, which offered an extended period for construction activity. ICRA foresees GVA growth in both these sectors accelerating in Q2 2026-27 relative to Q1 2026-27.

Trends in investment activity were largely favourable in Q2 2026-27 compared to Q1 2026-27. The YoY growth in infrastructure goods' output improved to 7.7% in Q2 2026-27 from 7.2% in Q1 2026-27. However, the YoY growth in capital goods' output eased marginally to 14.9% from 15.2%, while remaining in double digits. Moreover, the pace of growth in the Government of India's capex declined sharply to 2.8% in Q2 2026-27 from 23.7% in Q1 2026-27, while that for the 25 state governments (excluding Manipur, Mizoram, and Goa) saw an acceleration to double digits during July-August 2026.

While ICRA expects the pace of YoY growth in the services GVA to ease to ~9.1% in Q2 2026-27 from 10.0% in Q1 2026-27, amid a broad-based deceleration across the three sub-sectors, it would remain quite strong. Most available indicators pertaining to the trade, hotels, transport, communication and services related to broadcasting (THTCS) and financial, real estate and professional services (FRP) segments reported an improvement in their YoY performance in Q2 2026-27 compared to Q1 2026-27. However, the Government of India's non-interest revenue expenditure contracted by 0.8% in Q2 2026-27, following a sharp 19.5% expansion in Q1 2026-27. The pace of expansion in the combined non-interest revenue expenditure of 25 state governments (excluding Manipur, Mizoram, and Goa) inched up to 4.9% during July-August 2026 from 2.6% in Q1 2026-27.

While the first advance estimates of crop production are not yet available, the area sown under kharif crops has eased by 1.0% compared with the year-ago levels. The decline was led by rice (-3.5%), with large contractions in some states including Karnataka, Andhra Pradesh, Telangana, and Tamil Nadu, owing to sub-par rains during the Southwest Monsoon season. Besides, the spatial and temporal unevenness in rainfall is likely to have impacted yields, which may weigh on crop output during the season. ICRA estimates the YoY growth in the GVA of agriculture, forestry and fishing to slow sharply to a marginal ~0.2% in Q2 2026-27 (+3.2% in Q2 2025-26) from 3.6% in Q1 2026-27 (+4.4% in Q1 2025-26).

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For further information, please contact:

Media Contacts:	
Naznin Prodhani Vice President – Head Group Corporate Communications & Media Relations ICRA Ltd. Tel: + (91 124) 4545300, Dir – 4545 860 **Email:** comcommunications@icraindia.com	**Saheb Singh Chadda** Manager - Corporate Communications & Media Relations ICRA Ltd. Mob: +91- 9833669052 **Email:** communications@icraindia.com

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