ICRA

Gross Domestic Product

GDP growth slowed to lower-than-expected 5.4% in Q2 FY2025; projected to print at 6.5% in FY2025, aided by tailwinds in H2

NOVEMBER 2024

Highlights

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YoY GDP growth eased to a lower-than-expected 5.4% in Q2 FY2025 from 6.7% in Q1

Manufacturing, mining and services segments saw a weaker-than-expected performance in Q2 FY2025

ICRA expects growth to pick up in H2 FY2025, amid upbeat agri outlook, uptick in GoI capex, while weak urban demand and adverse geopolitical developments pose downside risks; GDP growth to print at 6.5% in FY2025

The year-on-year (YoY) growth in India's GDP and GVA moderated to a lower-than-expected 5.4% and 5.6%, respectively, in Q2 FY2025 from 6.7% and 6.8%, respectively, in Q1 FY2025, amid the anaemic outturn of manufacturing growth, contraction in mining and slowdown in electricity growth owing to the transient impact of heavy rains, and lower-than-projected growth in the services GVA. Following the downbeat data for Q2, the outlook for H2 FY2025 remains decidedly mixed. We foresee a likely improvement in rural demand amid robust kharif output and upbeat outlook for rabi crops, as well as investment activity aided by a pick-up in the GoI's capex. Overall, the back-ended pick up in economic activity is expected to boost GDP growth in H2 FY2025, resulting in a full-year expansion of 6.5%. However, ICRA remains watchful of the impact of a slowdown in personal loan growth on urban consumption as well as geopolitical and tariff-related developments on commodity prices and external demand.

- **Deceleration in GDP growth was much sharper-than-expected in Q2 FY2025:** India's GDP and GVA growth slowed down to 5.4% and 5.6%, respectively, in Q2 FY2025 (seven-quarter low each) from 6.7% and 6.8%, respectively, in Q1, albeit lower than ICRA's expectations (+6.5%/+6.6%). Moreover, the wedge between GDP and GVA growth remained inverted at (-) 24 bps in Q2 FY2025, with a lower growth in net indirect taxes (to +2.7% from +4.1%).
- **Lower-than-anticipated growth in manufacturing, mining and services in Q2 FY2025:** The sharper-than-expected deceleration in the GVA growth in Q2 FY2025 vis-à-vis Q1 was led by manufacturing (to +2.2% from +7.0%; low volume growth, weak urban demand), mining (to -0.1% from +7.2%), and services (to +7.1% from +7.2%) segments.
- **PFCE and GFCF growth slowed, while that for GFCE picked up despite high base:** The deceleration in GDP growth in Q2 FY2025 vis-à-vis Q1 was led by weaker growth in GFCF (to +5.4% from +7.5%) and PFCE (to +6.0% from +7.4%), while GFCE reverted to a YoY growth after contracting in Q1 (to +4.4% from -0.2%), despite a high base.
- **GDP growth to pick up in H2 FY2025:** The outlook for H2 FY2025 remains decidedly mixed. We foresee a likely improvement in rural demand amid robust kharif output and upbeat outlook for rabi crops, as well as investment activity aided by a pick-up in the GoI's capex. Overall, ICRA expects the back-ended pick up in economic activity to boost the GDP growth in H2 FY2025, resulting in a full-year expansion of 6.5%. However, ICRA remains watchful of the impact of a slowdown in personal loan growth on urban consumption as well as geopolitical and tariff-related developments on commodity prices and external demand.

Agenda

1 Quarterly Analysis: Production Approach

2 Quarterly Analysis: Expenditure Approach

3 Outlook

4 Annexure

YoY growth in GDP and GVA saw a sharper-than-expected moderation to 5.4% and 5.6%, respectively, in Q2 FY2025

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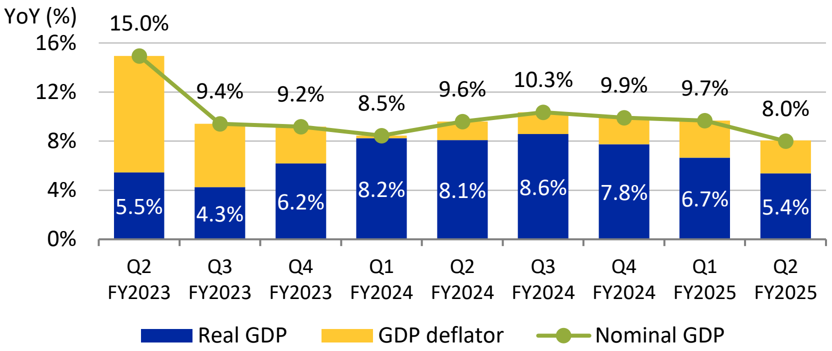
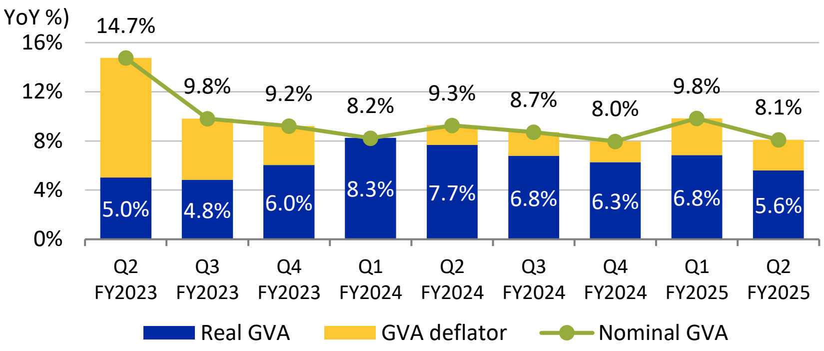
EXHIBIT: Quarterly trends in real and nominal GDP, and deflator



Source: NSO; CEIC; ICRA Research

EXHIBIT: Quarterly trends in real and nominal GVA, and deflator

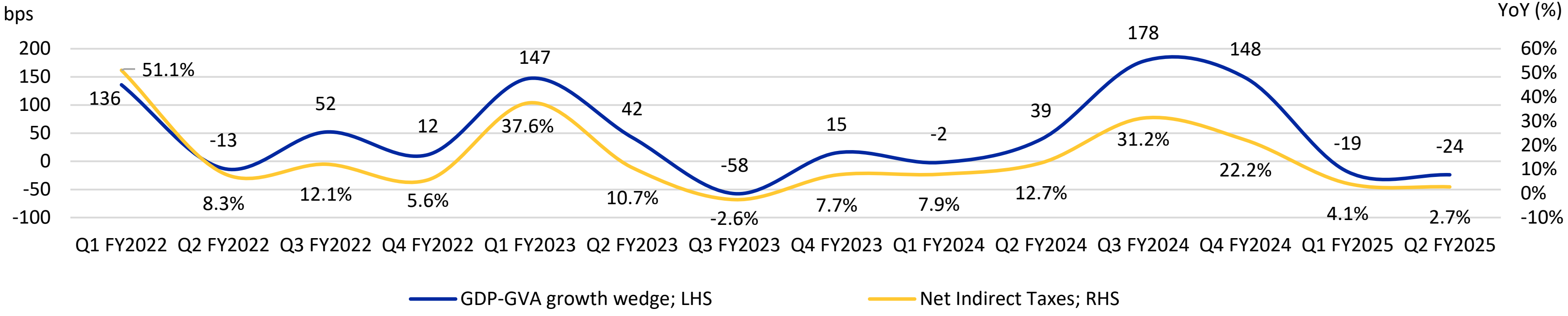


Source: NSO; CEIC; ICRA Research

- As per the data released by the NSO, India's GDP growth weakened sharply to a seven-quarter low of 5.4% in Q2 FY2025 from 6.7% in Q1 FY2025. Likewise, the GVA growth decelerated to 5.6% from 6.8%, between these quarters. These prints were much lower than ICRA's expectations (GDP/GVA: +6.5%/+6.6%) for the quarter.
- The deceleration in the GVA growth in Q2 FY2025 vis-à-vis Q1 FY2025 was largely led by a sharp moderation in the industrial sector to 3.6% (from +8.3% in Q1 FY2025), owing to the impact of excess rainfall as well as an adverse base for most of the industrial sub-sectors. On the expenditure side, PFCE eased to 6.0% in Q2 FY2025 (from +7.4% in Q1 FY2025), despite a favorable base, as urban demand remained lacklustre.
- In nominal terms, the YoY GDP growth dipped to 8.0% in Q2 FY2025 from 9.7% in Q1 FY2025, while the GVA growth fell to 8.1% from 9.8%, respectively. Moreover, the GDP and GVA deflators eased to 2.7% and 2.5%, respectively, in Q2 FY2025 from 3.0% each in Q1 FY2025, reflecting the softening in the WPI (to +1.7% in Q2 FY2025 from +2.4% Q1 FY2025) and CPI (to +4.2% from +4.9%) inflation rates between these quarters.

Wedge between GDP and GVA growth remained inverted in Q2 FY2025

EXHIBIT: Quarterly trends in wedge between GDP and GVA growth and growth in net indirect taxes (in real terms)

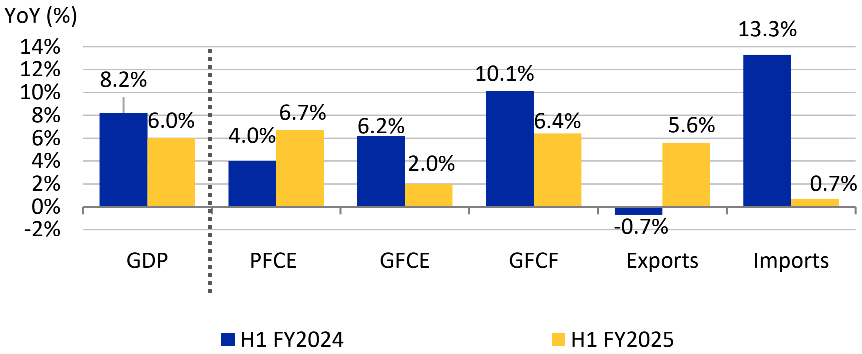


Net indirect taxes = taxes – subsidies; major subsidies includes food, fertilisers and petroleum; Source: NSO; CEIC; ICRA Research

- The wedge between the GDP and GVA YoY growth remained inverted at (-) 24 bps in Q2 FY2025 (vs. -19 bps in Q1 FY2025), with the growth in GVA marginally exceeding that of GDP for the second consecutive quarter. This was driven by the lower expansion in net indirect taxes (to a seven-quarter low of +2.7% in Q2 FY2025 from +4.1% in Q1 FY2025) in real terms.
- In nominal terms, the growth in net indirect taxes largely remained unchanged at 8.0% in Q2 FY2025 vis-à-vis Q1 (+7.9%). The growth in both, the GoI's indirect taxes (to +11.9% in Q2 FY2025 from +7.9% in Q1 FY2025) and subsidy outgo (to +4.3% from +3.6%) inched up in Q2 vis-à-vis Q1, as per the provisional data released by the Controller General of Accounts (CGA).

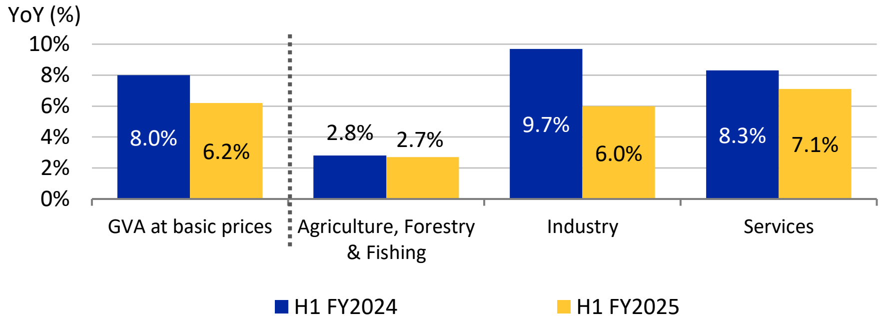
Real GDP and GVA up by 6.0% and 6.2%, respectively, during H1 FY2025

EXHBIT: YoY performance of GVA and its components in H1 FY2024-25



Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of GDP and its components in H1 FY2024-25



Source: NSO; CEIC; ICRA Research

- India’s GDP and GVA at basic prices recorded a tepid growth of 6.0% and 6.2%, respectively, in H1 FY2025, lower than the growth seen in H1 FY2024 (+8.2% and +8.0%, respectively).
- The YoY moderation in GDP in H1 FY2025 was largely driven by GFCE (+2.0%), and GFCF (+6.4%). Additionally, the narrowing of GVA growth in H1 FY2025 was led by the broad-based deceleration in industry (+6.0%, amid a sharp slowdown in manufacturing, mining, and a modest deceleration in construction), followed by services (+7.1%). Furthermore, the growth in agriculture, forestry and fishing (+2.7%) also eased marginally, although this was largely led by the muted print for Q1.

Quarterly Analysis: Production Approach

The moderation in GVA growth in Q2 FY2025, relative to Q1 FY2025 was largely driven by industrial sector and slight slowdown in services sector

While GVA growth of industry and services eased, that for agriculture sector improved in Q2 FY2025 vis-à-vis Q1

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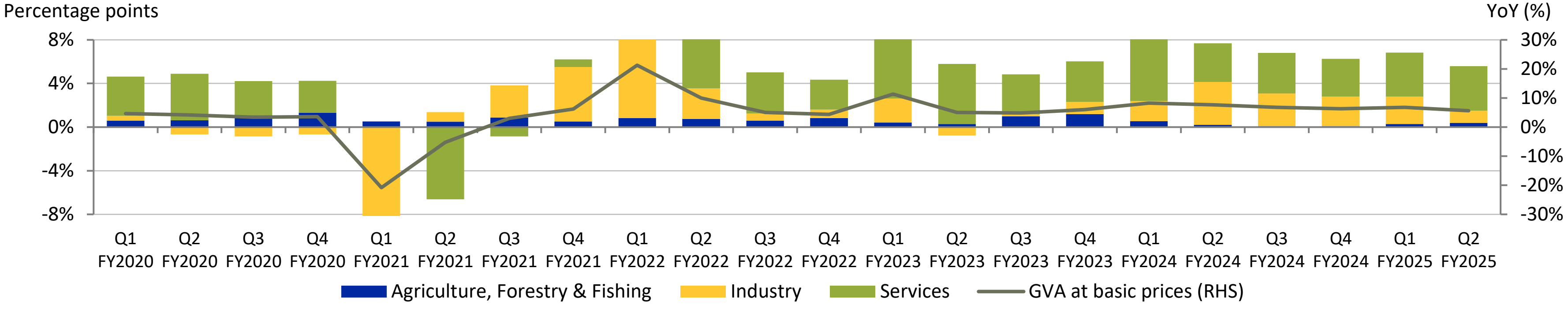
EXHIBIT: Contribution of GVA components



Source: NSO; CEIC; ICRA Research

- The YoY growth in GVA at basic prices declined sharply to 5.6% in Q2 FY2025 from 6.8% in Q1 FY2025, while printing well below ICRA's expectation (+6.6%). This was largely driven by a significant moderation in industry (to +3.6% in Q2 FY2025 from +8.3% in Q1 FY2025) and a marginal decline in services (to +7.1% from +7.2%). In contrast, the agriculture, forestry and fishing (to +3.5% from +2.0%) improved in Q2 FY2025, relative to Q1 FY2025.
- In terms of contribution, services accounted for 4.1 percentage points (pp) of the 5.6% GVA growth in Q2 FY2025. This was followed by the industry (1.1 pp) and agriculture, forestry and fishing (0.4 pp) segments. Notably, the contribution of the industrial segment eased quite sharply from 2.5 pp in Q1 FY2025.
- Excluding agriculture, the GVA growth stood at a slightly higher 5.9% in Q2 FY2025, as compared to the headline growth print. However, this was much lower than the 7.6% growth seen in Q1 FY2025 (+8.5% in Q2 FY2024).

Industrial GVA growth dipped to a six-quarter low of 3.6% in Q2 FY2025

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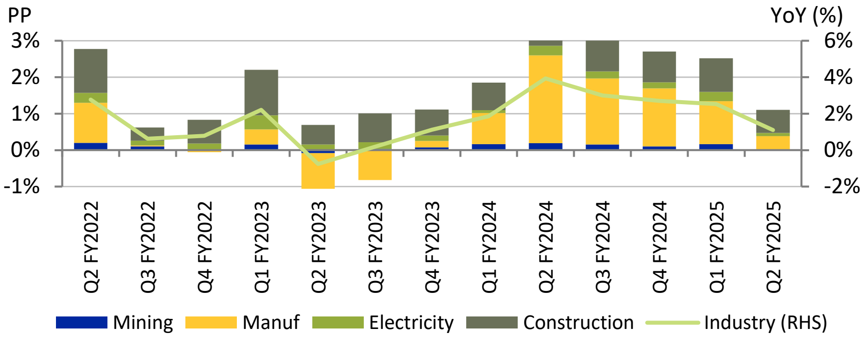
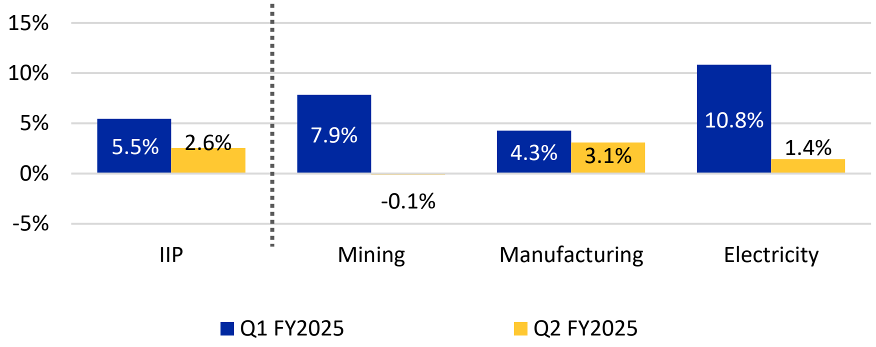
EXHIBIT: Contribution of components of Industry



Mining: Mining & Quarrying; Manuf: Manufacturing; Electricity: Electricity, gas , water supply & other utility services; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of the IIP and its components



Source: NSO; CEIC; ICRA Research

- The YoY growth in industrial GVA moderated steeply to 3.6% in Q2 FY2025 from 8.3% in Q1 FY2025, owing to a slowdown in volume growth across most industrial segments in Q2 FY2025 relative to Q1 (IIP growth at an eight-quarter low of +2.6% vs. +5.5%), weak margins, and an adverse base (+13.6%/+6.0% in Q2/ Q1 FY2024).
- The moderation was broad-based, with the manufacturing sector expanding by a mere 2.2% in Q2 FY2025, vis-à-vis 7.0% in Q1 FY2025, owing to slower growth in volumes of consumer goods, poor performance of merchandise exports, slowing urban demand and moderating margins in various sectors. Moreover, an adverse base also weighed upon the sector (+14.3% in Q2 FY2024 vs. +5.0% in Q1 FY2024).
- Notably, the mining and quarrying GVA contracted by 0.1% (+7.2% in Q1 FY2025), while the expansion in electricity, gas, water supply and other utility services (to +3.3% in Q2 FY2025 from +10.4% in Q1 FY2025) deteriorated expectedly during this period, amid excess rainfall in the last two months of the quarter as well as an unfavourable base. Furthermore, the growth in construction activity in Q2 trailed the unexpectedly high growth seen in the previous quarter (to +7.7% from +10.5%).
- Overall, industry accounted for a mere 1.1 pp of the GVA growth in Q2 FY2025 vs. 2.5 pp in Q1 FY2025, mainly led by the manufacturing sector (0.4 pp vs. 1.2 pp).

Excess rainfall and an adverse base weighed down on industrial sub-sectors in Q2 FY2025

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Mining

In line with the steep deterioration in the mining output (as per IIP: -0.1% in Q2 FY2025 vs. +7.9% in Q1 FY2025), on account of heavy rainfall and an unfavorable base, the GVA growth of mining and quarrying output contracted by 0.1% in Q2 FY2025 from 7.2% in Q1 FY2025.

Manufacturing

Manufacturing GVA growth decelerated to a six-quarter low of 2.2% in Q2 FY2025 from 7.0% in Q1 FY2025, led by lower volume growth (as per IIP: seven-quarter low +3.1% in Q2 FY2025 vs. +4.3% in Q1 FY2025), poor performance of merchandise exports, slowing urban demand and moderating margins in various sectors.

Electricity

The GVA growth of electricity, gas, water supply and other utility sectors narrowed sharply to a five-quarter low of 3.3% in Q2 FY2025 from 10.4% in Q1 FY2025, amid weak demand owing to excess rainfall in the last two months of the quarter as well as an unfavourable base.

Construction

Construction GVA growth eased to 7.7% in Q2 FY2025 from an unusually high growth of 10.5% in Q1. Even as the growth in GoI's capex improved in Q2, the momentum was restrained by excess rainfall. Growth in steel (at 11-quarter low of +4.1% vs. +8.4% in Q1 FY2025) and cement (to +2.9% vs. +0.4%) output remained muted in the quarter.

Pace of expansion in services GVA eased marginally to 7.1% in Q2 FY2025 from 7.2% in Q1, in contrast with ICRA's expectation of an uptick

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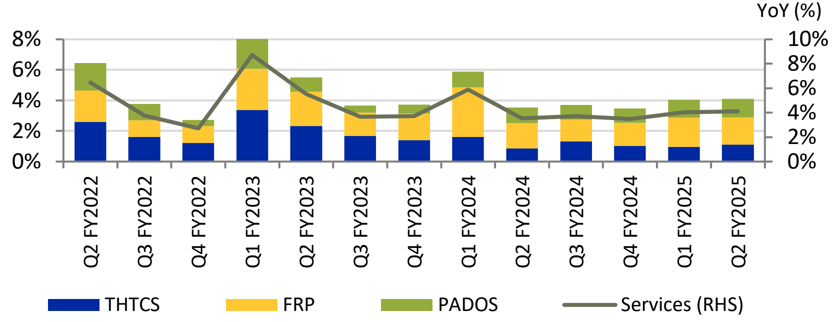
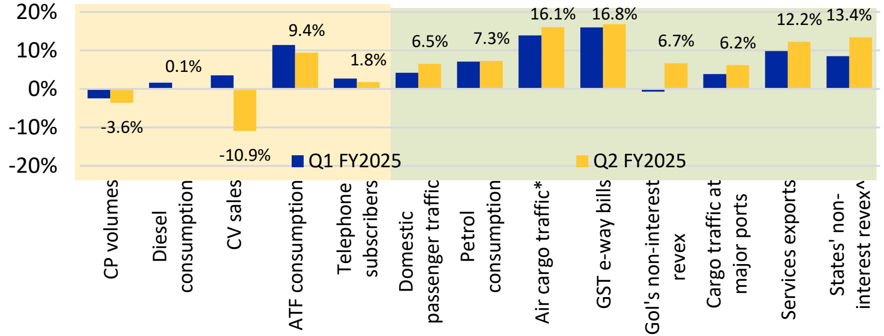
EXHIBIT: Contribution of components of Services



THTCS: Trade, hotels, transport, communication & services related to broadcasting: FRP: Financial, real estate & professional services; PADOS: Public administration, defence & other service; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of service sector indicators in Q1-Q2 FY2025



*^Data available for 22 states excluding Arunachal Pradesh, Gujarat, Goa, Jharkhand, Manipur, and Odisha; ; *Data for Q2 FY2025 is available up to August 2024; Source: CMIE; RBI; GSTN; TRAI; IPA; PPAC; DGCA; CEIC; ICRA Research*

- The YoY expansion in services GVA unexpectedly eased to 7.1% in Q2 FY2025 from 7.2% in Q1 FY2025, as against ICRA's expectation of a modest uptick (+7.8%). This was driven by the moderation in the growth in the FRP (to +6.7% from +7.1%; despite by a favorable base) and PADOS (to +9.2% from +9.5%) segments, even as the YoY growth in THTCS (to +6.0% from +5.7%) improved between these quarters.
  - **FRP:** Even as the YoY performance of non-food bank credit* (to +14.4% from +13.9%) and deposits* (+12.0% from +10.7%) improved at end-September 2024 vis-à-vis end-June 2024 and corporate bond issuances (to 25-quarter high of +12.1% from +10.0%), and net FPI inflows (to a 15-quarter high of +$20.0 billion from +$1.5 billion), improved in Q2 FY2025 vs. Q1 FY2025. However, the performance of the real estate sector deteriorated between these quarters.
  - **THTCS:** The performance of mobility/travel related indicators witnessed a mixed trend, with the deterioration in some of these indicators attributed to excess rainfall seen during August-September 2024. Indicators such as domestic airline passenger traffic, GST e-way bills, cargo traffic at major ports and air traffic, and service sector exports improved in Q2 FY2025 compared to the prior quarter.
  - **PADOS:** The combined non-interest revenue expenditure of 22 state governments rose by 13.4% in Q2 FY2025, higher than the 8.5% seen in Q1 FY2025. Similarly, the GoI's non-interest revenue expenditure reverted to a YoY expansion of 6.7% in Q2 FY2025 (from -0.7% in Q1 FY2025).

**excluding the impact of the HDFC merger*

YoY growth in agri GVA expectedly rose to five-quarter high of 3.5% in Q2 FY2025, boosted by healthy kharif output and favourable base

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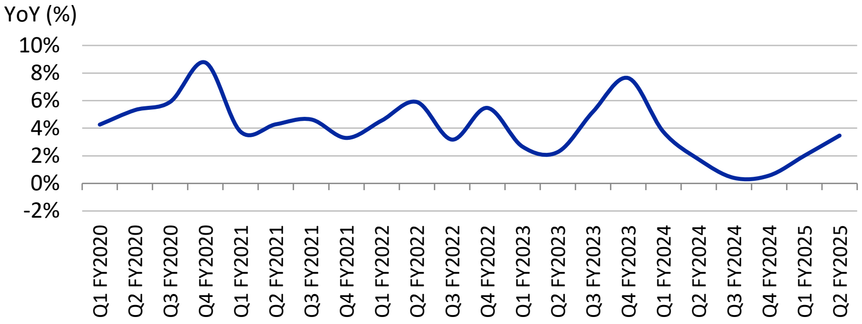
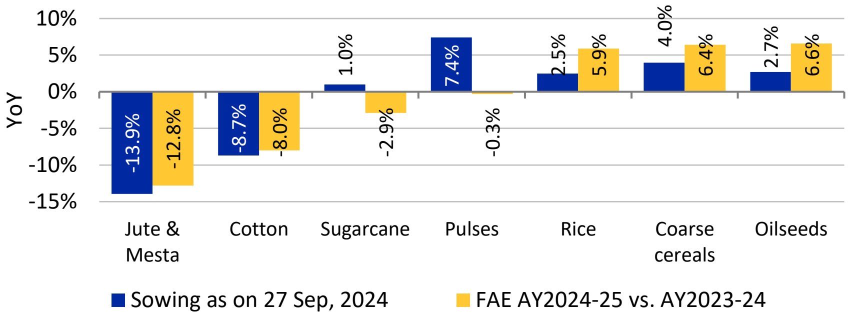
EXHIBIT: YoY trends in Agriculture, Forestry and Fishing GVA (at constant 2011-12 prices)



Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY trends in sowing of kharif crops and FAE of kharif output in AY2024-25 vs. Final estimate for AY2023-24



FAE: First Advance Estimates; AY: Agricultural Year: July to June; Source: Ministry of Agriculture and Farmers' Welfare, GoI; CEIC; ICRA Research

- The YoY growth in GVA of agriculture, forestry and fishing expectedly improved to a five-quarter high of 3.5% in Q2 FY2025 (+1.7% in Q2 FY2024) from 2.0% in Q1 FY2025 (+3.7% in Q1 FY2024), supported by the healthy trends in kharif sowing and output in AY2024-25 as well as a low base.
- Kharif sowing was up by 1.9% YoY by the end of the season (as on September 27, 2024), driven by major crops like rice (+2.5%), pulses (+7.4%), oilseeds (+2.7%), coarse cereals (+4.0%) and sugarcane (+1.0%). However, the area sown for some cash crops such as cotton (-8.7%), and jute and mesta (-13.9%) reported a YoY moderation.
- Subsequently, the first AE for kharif crop for AY2024-25 released by the Ministry of Agriculture and Farmers' Welfare revealed a healthy YoY growth in the output of rice (+5.9%), oilseeds (+6.6%) and coarse cereals (+6.4%), over the final estimates for AY2023-24. However, the output for cotton (-8.0%), and jute and mesta (-12.8%) is anticipated to moderate on a YoY basis in AY2024-25 owing to a sharp fall in the area sown for these crops. The production of pulses (-0.3%) and sugarcane (-2.9%) is also estimated to ease, amid concerns related to yields. Overall, the kharif foodgrain output is anticipated to rise by 5.7% YoY to a record-high of 164.7 MT in AY2024-25.

Quarterly Analysis: Expenditure Approach

Moderation in PFCE and GFCF compressed GDP expansion to a seven-quarter low of 5.4% in Q2 FY2025

GDP growth slowed sharply in Q2 FY2025 vs. Q1, amid lower YoY uptick in GFCF and PFCE

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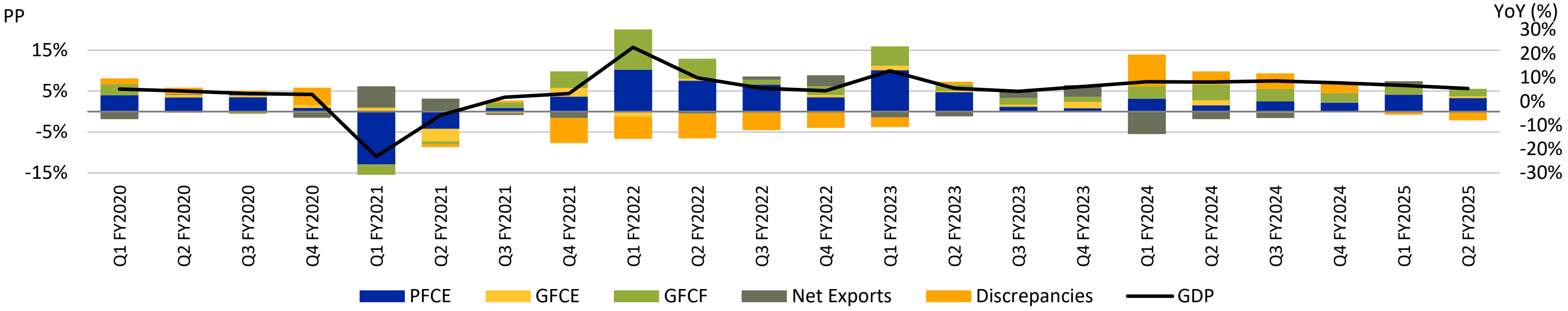
EXHIBIT: Contribution of GDP components

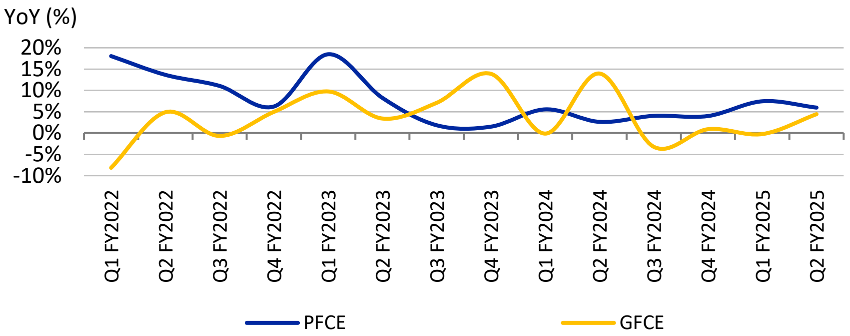


PFCE: Private Final Consumption Expenditure; GFCE: Government Final Consumption Expenditure; GFCF: Gross Fixed Capital Formation; Source: NSO; CEIC; ICRA Research

- The YoY GDP expansion moderated to a lower-than-expected seven-quarter low of 5.4% in Q2 FY2025 from 6.7% in Q1 FY2025 (ICRA's exp.: +6.5%). The deceleration was led by a weaker YoY expansion in GFCF (to +5.4% in Q2 FY2025 from +7.5% in Q1 FY2025; high base) and PFCE (to +6.0% from +7.4%; amid muted urban demand). However, GFCE reverted to a YoY growth of 4.4% in Q2 FY2025 (four-quarter high; +14.0% in Q2 FY2024) from the contraction of 0.2% seen in the prior quarter (-0.1% in FY2024), despite a high base. In addition, net exports exerted a narrower drag of (-) Rs. 904.0 billion (-2.0% of GDP) on the GDP growth in Q2 FY2025, vis-à-vis that seen in Q1 FY2025 (vs. -Rs. 2.0 trillion; -4.7% of GDP).
- Nevertheless, PFCE (3.3 pp) and GFCF (1.9 pp) were the key contributors to the 5.4% GDP growth in Q2 FY2025, followed by a muted contribution by GFCE (0.4 pp).
- Discrepancies refer to the residual that remains after disaggregating GDP into its expenditure components, such as PFCE, GFCE, GFCF and net exports. The discrepancies in the GDP data for Q2 FY2025 inverted to (-) Rs. 688.2 billion (at 2011-12 prices) from (+) Rs. 1.0 trillion in Q1 FY2025, while exceeding the Q2 FY2024 level of (+) Rs. 189.4 billion. Accordingly, ICRA expects the growth of some of the GDP components to display substantial changes once the revised data is available.

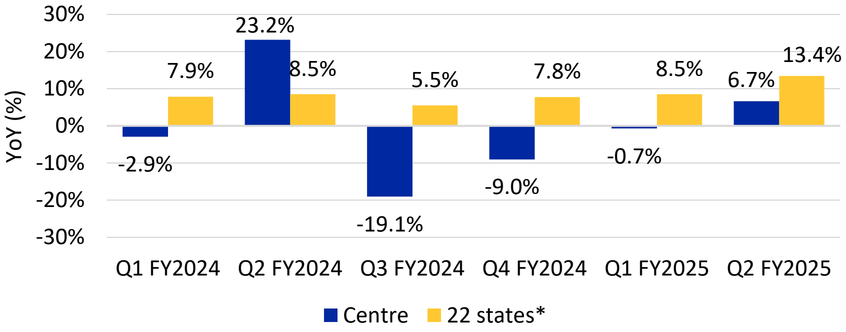
PFCE growth eased to 6.0% in Q2 FY2025, while GFCE reverted to an expansion, despite an unfavourable base

EXHIBIT: Growth in PFCE and GFCE (Constant 2011-12 Prices)



PFCE: Private Final Consumption Expenditure; GFCE: Government Final Consumption Expenditure; Source: NSO; CEIC; ICRA Research

EXHIBIT: Non-interest revenue expenditure of GoI and 22 state governments*

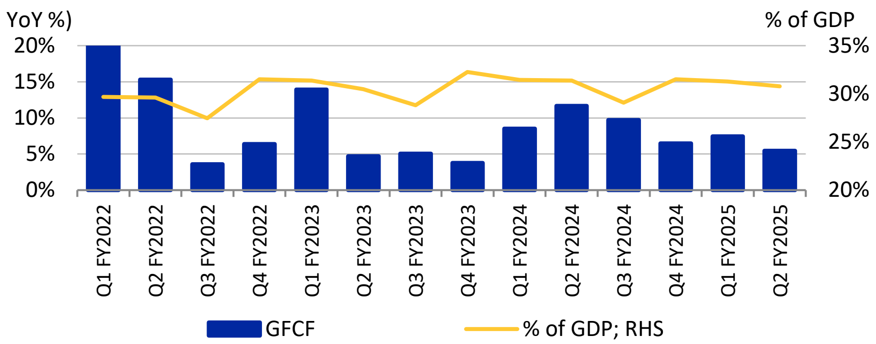


**22 states excluding Arunachal Pradesh, Gujarat, Goa, Jharkhand, Manipur, and Odisha; Source: CGA; CAG; ICRA Research*

- The YoY growth in PFCE deteriorated to 6.0% in Q2 FY2025 (+2.6% in Q2 FY2024) from 7.4% in Q1 FY2025 (+5.5% in Q1 FY2024), despite a low base. This was in line with the moderation in the YoY growth of consumer goods' output (durable + non-durable) in Q2 FY2025, relative to Q1 (to a six-quarter low of +1.7% from +4.4%; as per IIP data), owing to the muted demand for FMCG and some durables such as passenger vehicles, amid moderating growth in non-housing personal loans and elevated food and beverage inflation. However, urban consumer sentiments improved slightly in the September 2024 round, as reflected by the current situation index of the RBI's CCS (to 94.7 in September 2024 from 93.9 in July 2024). Moreover, rural demand remained healthy during Q2 FY2025, amidst a favourable monsoon, healthy kharif output, and robust demand during the festive season.
- Notably, GFCE rebounded to a YoY expansion of 4.4% in Q2 FY2025 (+14.0% in Q2 FY2024), after contracting by 0.2% in Q1 FY2025 (-0.1% in Q1 FY2024), despite a high base. This was in line with the uptick in the combined non-interest revenue expenditure of 22 state governments in Q2 FY2025, relative to the previous quarter (to +13.4% in Q2 FY2025 from +8.5% in Q1 FY2025). Similarly, the GoI's non-interest revex also reverted to a YoY expansion of 6.7% in Q2 FY2025 after contracting by 0.7% in Q1 FY2025. However, the improvement in GFCE growth was in contrast with the moderation in PADOS growth between these quarters (to +9.2% from +9.5%).

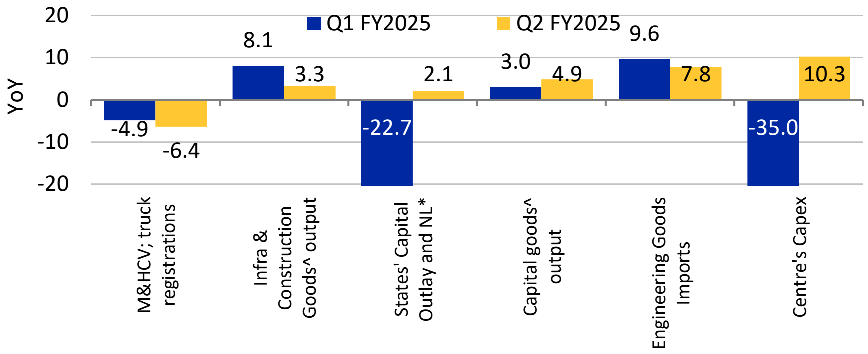
GFCF growth decelerated to 5.4% in Q2 FY2025 from 7.5% in Q1, largely owing to an adverse base

EXHIBIT: GFCF - YoY in real terms and % of GDP in nominal terms



GFCF: Gross Fixed Capital Formation; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of investment related indicators

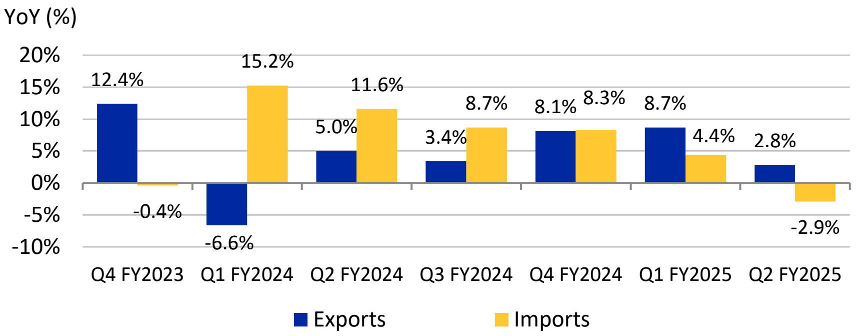


**22 states excluding Arunachal Pradesh, Gujarat, Goa, Jharkhand, Manipur, and Odisha; ^As per IIP data; Source: CGA; NSO; Vahan; Ministry of Commerce and Industry, GoI; CEIC; ICRA Research*

- Largely dampened by a high base, the YoY growth in GFCF weakened to a six-quarter low of 5.4% in Q2 FY2025 (+11.6% in Q2 FY2024) from 7.5% in Q1 FY2025 (+8.5% in Q1 FY2024), in contrast with the trends seen in most of the investment-related high frequency indicators which depicted an improvement in investment activity between these quarters. For instance, the Centre’s gross capex (to +10.3% in Q2 FY2025 from -35.0% in Q1 FY2025) and aggregate capital outlay and net lending of 22 states (to +2.1% from -22.7%) reverted to a YoY expansion in Q2 FY2025, after contracting in Q1, post the General Elections. Moreover, project announcements (at Rs. 6.7 trillion) and completions (at Rs. 1.0 trillion) rebounded in Q2 FY2025, after the election-led lull seen in Q1. Besides, the YoY growth in capital goods’ production (to +4.9% from +3.0%) also rose between these quarters.
- However, a few high frequency indicators such as infrastructure/ construction goods’ output (to +3.3% from +8.1%) and M&HCV truck registrations (to -6.4% from -4.9%) witnessed a deterioration in their YoY performance in Q2 FY2025, compared to the prior quarter.
- In nominal terms, the share of GFCF in GDP eased to 30.8% in Q2 FY2025 from 31.4% in Q2 FY2024 (and 31.3% in Q1 FY2025).

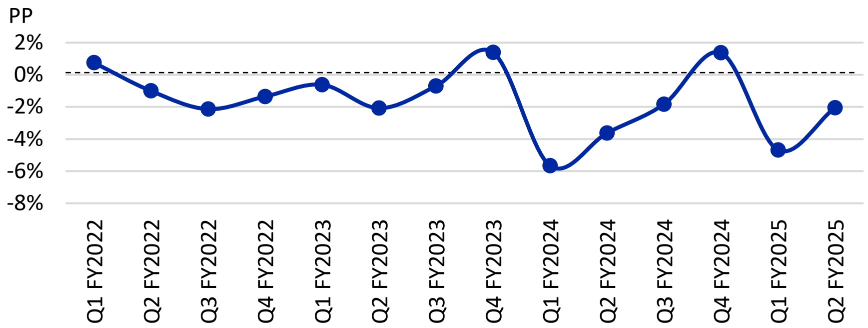
Drag exerted by net exports on GDP growth narrowed to 2.0% in Q2 FY2025

EXHIBIT: YoY Growth of Exports and Imports (Constant 2011-12 Prices)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Net exports as % of GDP (Constant 2011-12 prices)



Source: NSO; CEIC; ICRA Research

- The YoY growth in exports moderated to a five-quarter low of 2.8% in Q2 FY2025 (+5.0% in Q2 FY2024) from 8.7% in Q1 FY2025 (-6.6% in Q1 FY2024), partly owing to an adverse base and weak external demand. In addition, imports slipped into a YoY contraction of 2.9% (15-quarter low), after rising by 4.4%, respectively. Consequently, the drag exerted by net exports on the GDP (in constant 2011-12 prices) narrowed sharply to (-) Rs. 0.9 trillion (-2.0% of GDP) in Q2 FY2025 from (-) Rs. 2.0 trillion (-4.7% of GDP) in Q1 FY2025 and (-) Rs. 1.5 trillion (-3.6% of GDP) seen in Q2 FY2024.
- In nominal terms, export growth moderated to 4.5% in Q2 FY2025 from 9.5% in Q1 FY2025, in line with the trend seen in merchandise exports as per the data released by the Ministry of Commerce (to -3.9% in Q2 FY2025 from +5.9% in Q1 FY2025) and service exports (to +4.2% from +5.9%). Likewise, imports rose by 6.8% in Q2 FY2025, trailing the 9.1% growth seen in Q1 FY2025, mainly driven by a weaker growth in merchandise imports (to +4.0% from +8.4%; as per the Ministry of Commerce and Industry), even as services imports (to +12.5% from +7.2%; as per RBI) saw an uptick between these quarters.

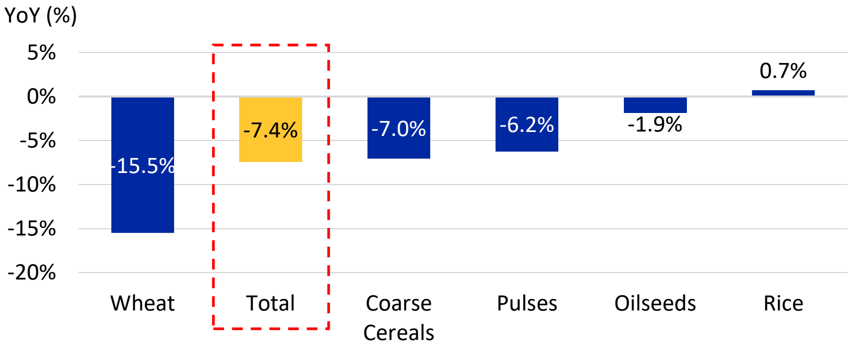
OUTLOOK FOR FY2025

GDP growth expected to pick up in H2 FY2025; likely to print at 6.5% in FY2025

Rural demand to improve in H2 amid robust increase in kharif output and bright prospects for rabi crops; urban consumption to remain uneven

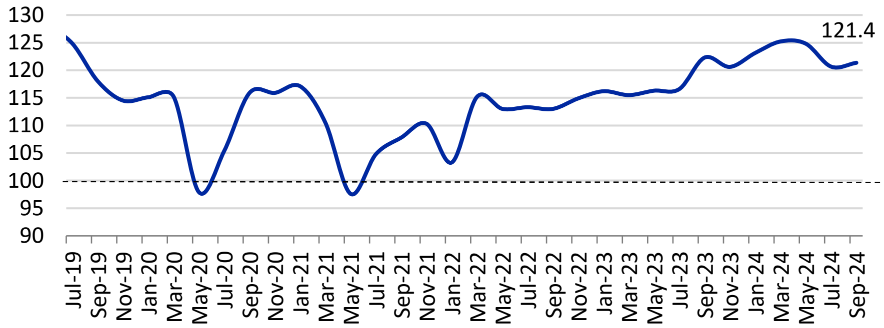
ICRA

EXHIBIT: YoY trends in rabi sowing as on November 8, 2024



Source: Ministry of Agriculture and Farmers Welfare; ICRA Research

EXHIBIT: Trends in Future Expectation Index of Consumer Confidence Survey

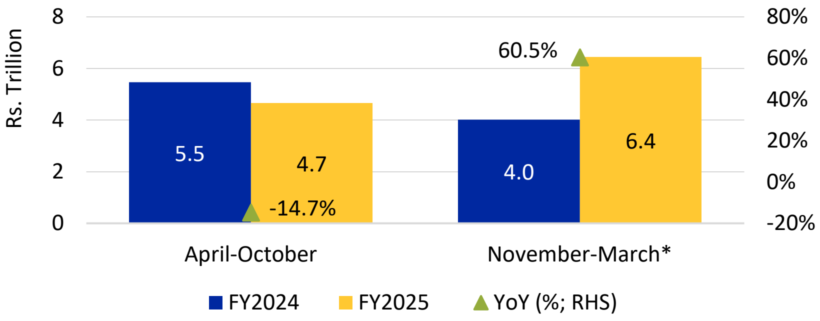


Consumer confidence survey is conducted across 19 major cities; Source: RBI; CEIC; ICRA Research

- Partly attributed to warmer temperatures, rabi sowing has witnessed a slow start in some states. As per the preliminary data released by the Ministry of Agriculture, the total area sown for such crops was 7.4% lower on a YoY basis as on November 8, 2024, driven by wheat (-15.5%), coarse cereals (-7.0%), pulses (-6.2%), and oilseeds (-1.9%). However, the sowing of rice saw an uptick of 0.7% in this period. Notwithstanding the early trends, **ICRA remains optimistic about the rabi crop, considering the favourable impact of high reservoir storage and the ensuing La Nina conditions on sowing and crop yields, even as the low inventory levels of DAP pose a concern.**
- **Buoyed by the robust increase in kharif foodgrain output (+5.7% to a record 164.7 MT), an upbeat outlook for the rabi crop, and a favourable base, ICRA projects the GVA growth for agriculture, forestry and fishing to improve in H2 FY2025 (+0.5% in H2 FY2024) from 2.7% in H1 FY2025 (+2.8% in H1 FY2024). Overall, we expect the agri-GVA growth to print at ~3.5% in FY2025, higher than 1.4% in FY2024. Notably, farm cash flows from a healthy kharif output are likely to provide a fillip to rural demand in H2.**
- As per the RBI's CCS, the future expectations index inched up to 121.4 in September 2024 from 120.7 in July 2024, while remaining in the positive territory. **Going forward, the consumer sentiments are likely to rise further in H2 FY2025, owing to the seasonal uptick in demand seen during the festive season. However, urban consumption is likely to remain uneven in H2, amid the adverse impact of sustained elevated food inflation levels on the budgets of low- and middle-income HHs, which would continue to impact low-ticket and discretionary consumption. Additionally, the deceleration in the non-housing personal loan growth will also weigh on urban consumption to some extent.**

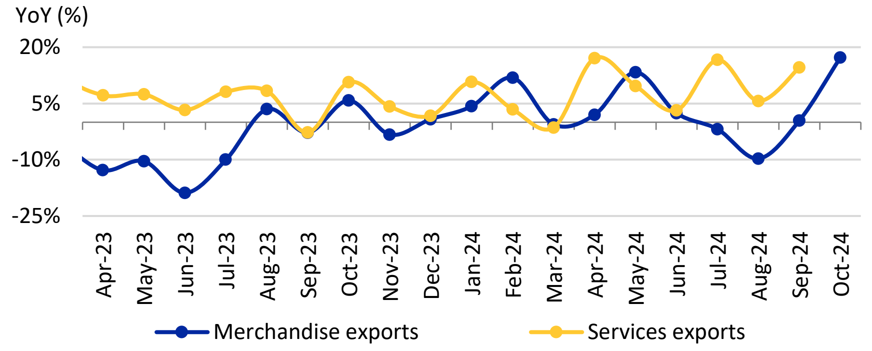
Considerable headroom available for GoI capex to boost growth momentum in remainder of FY2025; export growth to remain sluggish in near term

EXHIBIT: Trends in capital expenditure of Centre in April-October and November-March FY2024-25



**Growth in November-March FY2025 required to meet the FY2025 RBE; Source: Union Budget; CGA; ICRA Research*

EXHIBIT: YoY trends in India's merchandise and services exports



Source: Ministry of Commerce and Industry, GoI; RBI; CEIC; ICRA Research

- Following the YoY contraction of 14.7% in April-October FY2025, the Centre needs to incur a capex of ~Rs. 1.3 trillion per month during November-March FY2025 to meet the FY2025 RBE of Rs. 11.1 trillion, implying a substantial YoY growth of ~61% during this period. **Although we expect the FY2025 target to be missed by at least Rs. 1.0 trillion, the YoY growth in the remaining months would still be quite high. This is likely to provide a fillip to construction activity and aid in supporting the allied input sectors like cement, steel, etc. On the private capex front, the sustenance of domestic demand amid global headwinds would impact capacity utilisation levels over the next few quarters and influence the pace of incremental capacity addition announcements through the remainder of FY2025 and FY2026.**
- The IMF expects the growth in world output to ease from 3.3% in 2023 from 3.2% in 2024, and remain unchanged thereafter in 2025, as per its World Economic Outlook released in October 2024. **With global growth unlikely to pick up meaningfully in 2024-2025, India's merchandise exports are likely to witness a muted growth of 1-3% YoY in FY2025. While rate cuts in AEs could boost India's exports towards the end of the fiscal, a large part of the impact would only materialise in FY2026. Although the newly elected government in the US may raise import tariffs, the impact of this will depend on specific sectoral announcements.**
- **On the services front, exports of IT services may remain tepid, owing to persistent uncertainty in the key markets resulting in delays in decision making by customers, as well as a moderation in discretionary tech spending. However, the export performance of non-IT services (including GCCs) may continue to remain healthy.**

Tailwinds owing to government capex and rural demand to boost growth in H2 FY2025; GDP growth to print at 6.5% in FY2025

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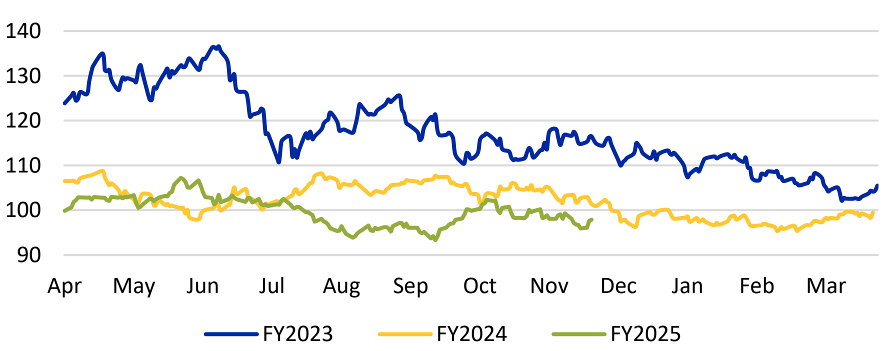
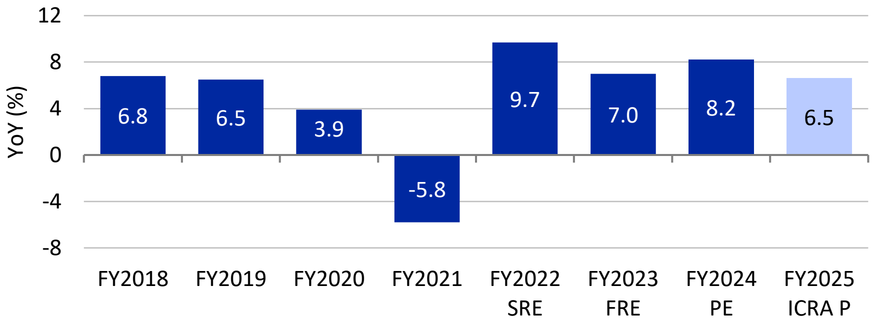
EXHIBIT: Trends in Bloomberg Commodity Price Index



Data for FY2025 is up to November 27, 2024; Source: Bloomberg; ICRA Research

EXHIBIT: Annual GDP and GVA YoY growth trends (at constant 2011-12 prices)



FRE/SRE: First/Second Revised Estimates; PE: Provisional Estimates; P: Projected; Source: NSO; ICRA Research

- After surging in early-October 2024 amid an escalation in geopolitical tensions, global commodity prices eased in November 2024, with the Bloomberg Commodity Index trending 1.9% lower on a sequential basis (up to November 27). In Q3 FY2025 so far, the Index has contracted by 4.6% YoY which may augur well for corporate margins in the quarter, albeit narrower than the 7.7% decline seen in Q2 FY2025.
- **Following the lower-than-expected growth in Q2 FY2025, the outlook for H2 FY2025 is decidedly mixed. We foresee an uptick in growth amid a likely improvement in rural demand owing to the robust growth in kharif foodgrain output and upbeat outlook for rabi crops, expectations of a back-ended pick up in the Government of India's capex, and the dissipation of the transient impact of heavy rains. However, ICRA remains watchful of the impact of a slowdown in personal loan growth on urban consumption as well as geopolitical and tariff-related developments on commodity prices and external demand.**
- **On balance, ICRA expects GDP growth in H2 FY2025 to print appreciably above the levels seen in the initial data for Q2 FY2025. Nevertheless, primarily led by the lower-than-expected print for the just-concluded quarter, we have revised our forecast for the full-year expansion to ~6.5% from 7.0%.**

Annexure

Annexure A.1

EXHIBIT: GVA at Basic Prices and its Components (YoY Growth, Constant 2011-12 Prices)

	Q2 FY2024	Q3 FY2024	Q4 FY2024	Q1 FY2025	Q2 FY2025	FY2022 SRE	FY2023 FRE	FY2024 PE
GVA at Basic Prices	**7.7%**	**6.8%**	**6.3%**	**6.8%**	**5.6%**	**9.4%**	**6.7%**	**7.2%**
Agriculture, Forestry & Fishing	***1.7%***	***0.4%***	***0.6%***	***2.0%***	***3.5%***	***4.6%***	***4.7%***	***1.4%***
Industry	***13.6%***	***10.5%***	***8.4%***	***8.3%***	***3.6%***	***12.2%***	***2.1%***	***9.5%***
Mining & Quarrying	11.1%	7.5%	4.3%	7.2%	-0.1%	6.3%	1.9%	7.1%
Manufacturing	14.3%	11.5%	8.9%	7.0%	2.2%	10.0%	-2.2%	9.9%
Electricity, gas, water supply & other utilities	10.5%	9.0%	7.7%	10.4%	3.3%	10.3%	9.4%	7.5%
Construction	13.6%	9.6%	8.7%	10.5%	7.7%	19.9%	9.4%	9.9%
Services	***6.0%***	***7.1%***	***6.7%***	***7.2%***	***7.1%***	***9.2%***	***10.0%***	***7.6%***
Trade, Hotels, Transport, Communication & Services related to Broadcasting	4.5%	6.9%	5.1%	5.7%	6.0%	15.2%	12.0%	6.4%
Financial, Real Estate & Professional Services	6.2%	7.0%	7.6%	7.1%	6.7%	5.7%	9.1%	8.4%
Public Administration, Defence and Other Services	7.7%	7.5%	7.8%	9.5%	9.2%	7.5%	8.9%	7.8%

SRE: Second Revised Estimates; FRE: First Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

Annexure A.2

EXHIBIT: GDP and Final Expenditures (YoY Growth, Constant 2011-12 Prices)

	Q2 FY2024	Q3 FY2024	Q4 FY2024	Q1 FY2025	Q2 FY2025	FY2022 SRE	FY2033 FRE	FY2024 PE
GDP	**8.1%**	**8.6%**	**7.8%**	**6.7%**	**5.4%**	**9.7%**	**7.0%**	**8.2%**
PFCE	2.6%	4.0%	4.0%	7.4%	6.0%	11.7%	6.8%	4.0%
GFCE	14.0%	-3.2%	0.9%	-0.2%	4.4%	0.0%	9.0%	2.5%
Exports	5.0%	3.4%	8.1%	8.7%	2.8%	29.6%	13.4%	2.6%
Imports	11.6%	8.7%	8.3%	4.4%	-2.9%	22.1%	10.6%	10.9%
Gross Capital Formation	10.7%	11.5%	8.0%	7.1%	5.9%	21.1%	5.5%	9.4%
GFCF	11.6%	9.7%	6.5%	7.5%	5.4%	17.5%	6.6%	9.0%
Change in Stocks	10.2%	7.5%	5.0%	5.6%	1.3%	525.4%	14.5%	5.9%
Valuables	-0.9%	63.9%	72.8%	-11.4%	14.4%	32.5%	-19.1%	21.2%

SRE: Second Revised Estimates; FRE: First Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

Annexure B.1

EXHIBIT: Composition of GVA at Basic Prices (at Current Prices)

	Q2 FY2024	Q3 FY2024	Q4 FY2024	Q1 FY2025	Q2 FY2025	FY2022 SRE	FY2023 FRE	FY2024 PE
GVA at Basic Prices	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Agriculture, Forestry & Fishing	***14.3%***	***21.6%***	***18.1%***	***16.0%***	***14.2%***	***18.9%***	***18.2%***	***17.7%***
Industry	***27.3%***	***26.3%***	***29.5%***	***27.2%***	***26.3%***	***28.9%***	***27.6%***	***27.6%***
Mining & Quarrying	1.7%	1.9%	2.2%	2.1%	1.6%	2.0%	2.0%	2.0%
Manufacturing	14.8%	13.3%	15.0%	13.7%	14.2%	15.7%	14.3%	14.3%
Electricity, gas, water supply & other utilities	2.5%	2.4%	2.5%	2.5%	2.4%	2.7%	2.5%	2.5%
Construction	8.2%	8.7%	9.8%	8.9%	8.2%	8.5%	8.8%	8.9%
Services	***58.4%***	***52.1%***	***52.4%***	***56.8%***	***59.5%***	***52.2%***	***54.2%***	***54.7%***
Trade, Hotels, Transport, Communication & Services related to Broadcasting	17.5%	17.7%	18.8%	15.5%	17.5%	17.0%	17.9%	17.5%
Financial, Real Estate & Professional Services	25.7%	20.0%	19.7%	25.8%	26.0%	21.5%	22.4%	22.7%
Public Administration, Defence and Other Services	15.2%	14.3%	13.8%	15.5%	16.0%	13.7%	13.9%	14.6%

SRE: Second Revised Estimates; FRE: First Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

Annexure B.2

ICRA

EXHIBIT: Composition of GDP and Final Expenditures (at Current Prices)

	Q2 FY2024	Q3 FY2024	Q4 FY2024	Q1 FY2025	Q2 FY2025	FY2022 SRE	FY2023 FRE	FY2024 PE
GDP	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
PFCE	61.1%	63.5%	57.9%	60.4%	62.0%	61.0%	60.9%	60.3%
GFCE	10.1%	8.5%	12.2%	10.2%	10.1%	10.5%	10.7%	10.4%
Exports	22.2%	21.3%	22.3%	21.5%	21.5%	21.4%	23.2%	21.8%
Imports	25.1%	24.2%	23.1%	23.9%	24.8%	24.0%	26.8%	24.1%
Gross Capital Formation	34.8%	31.6%	33.9%	32.8%	34.7%	32.1%	33.0%	33.3%
GFCF	31.4%	29.1%	31.5%	31.3%	30.8%	29.6%	30.7%	30.8%
Change in Stocks	1.0%	0.9%	1.1%	1.0%	1.0%	0.9%	1.0%	1.0%
Valuables	2.4%	1.6%	1.4%	0.6%	2.9%	1.6%	1.2%	1.5%

SRE: Second Revised Estimates; FRE: First Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

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Thank You!