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INDIA'S GDP GROWTH REMAINS AT 6.7% DURING THE (APR-JUN) OF FY25: SOME EXPLORATIONS

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India's Real GDP has been estimated to grow by 6.7% during the (Apr-June) quarter of the financial year (FY) 2024-25, which is below the RBI forecast of 7.1%. In the last year during the same period the economy grew by 8.2%. Given the current quarterly growth rate, the full-year growth is expected at around 7%. The growth rates of agriculture as well as services sector remain muted. The primary sector's overall growth is dragged down by the dismal growth of the rural sector that shows only 2% growth rate during the Apr-June quarter of the FY25 vis-à-vis 3.7% growth in FY24. In the tertiary sector, trade, hotels, financial sector have also shown relatively inadequate growth. The growth rate in FY25 stood at only 5.7% vis-à-vis 9.7% in the FY24. The growth rate of the financial services, real estate and professional services remains at 7.1% in FY25 compared to 12.6% in FY24.

Real Gross Value Added (GVA) has expanded by 6.8% in Q1 of FY 2024-25 over the growth rate of 8.3% in Q1 of the previous financial year (FY), which has been driven by significant growth in the Secondary Sector (8.4%), comprising of Construction (10.5%), Electricity, Gas, Water Supply & Other Utility Services (10.4%) and Manufacturing (7.0%) sectors.



The agriculture sector is subject to the volatile weather condition and uneven monsoon. The Southwest (SW) monsoon has covered the entire territory of the country on 2nd July 2024. According to the IMD forecast for September 2024, above-normal rainfall is expected over most parts of India, apart from some parts of the extreme north India, many parts of south Peninsular India, and most parts of northeast India where normal to below-normal rainfall is likely. Monthly rainfall for September 2024 over the country is most likely to be above normal (>109 % of the Long Period Average (LPA)).

At present, El Nino-Southern Oscillation (ENSO) neutral conditions are observed over the equatorial Pacific. The latest forecast indicates greater likelihood of development of La Niña conditions during end of monsoon season. Currently, neutral Indian Ocean Dipole (IOD) conditions are prevailing over the Indian Ocean.

On the other hand, the combined Index of Eight Core Industries (ICI) increased by 6.1% (provisional) in July 2024 as compared to the 5.1% Index in June 2024 (previous month). The monthly growth rates (MOM) of cement, steel, fertilizers, refinery products have shown impressive growth rates. In July'24 Cement, steel, fertilisers, refinery products have grown by 5.5%, 7.2%,5.3%,6.6% vi-a-vis 1.9%,6.7%,2.4%, (-)1.5% respectively in June'24 (previous month).

During the Apr-June'24 quarter, whereas the growth of the services sector remains muted, the manufacturing sector has shown robust growth. For instance, according to the published data by the RBI (30 Aug'24), the performance of the private corporate sector during the first quarter of 2024-25 drawn from abridged quarterly financial results of 2,934 listed non-government non-financial companies have shown that the sales growth of listed private non-financial companies at 6.9 per cent (y-o-y) during the first-quarter of 2024-25 remained close to that in the previous quarter but higher than 2.1 per cent growth a year ago.

At aggregate level, operating profit and net profit rose by 9.6 per cent and 14.2 per cent (y-o-y), respectively, during the first quarter of 2024-25. Operating profits of manufacturing, IT and non-IT services companies rose by 9.3 per cent, 5.1 per cent and 6.0 per cent, respectively, during the first-quarter of 2024-25 and their operating profit margin stood at 14.6 per cent, 22.5 per cent and 21.4 per cent, respectively; operating profits of listed companies in electricity and gas supply sectors, and construction sectors, however, recorded much higher growth of 28.6 per cent and 28.4 per cent, respectively.¹

¹ However, manufacturing companies' expenses on raw material rose by 6.4 per cent (y-o-y) in consonance with their sales growth, whereas their staff cost recorded higher increase of 10.7 per cent during Q1:2024-25; staff cost of IT and non-IT services companies increased by 2.4 per cent and 12.8 per cent, respectively. See, "Performance of Private Corporate Business Sector during Q1:2024-25" (30 Aug'2024) RBI Press Release: 2024-2025/1007.

According to the World Bank (WB)'s projections, India will grow at 6.6% in FY25. For FY26 and FY27, the growth rates are likely to be at 6.7% and 6.8%. For India, the above-normal Southwest monsoon is likely to have a favourable impact on kharif production and it is expected to replenish the reservoir levels. The balance sheets of banks remain healthy, though the lacklustre deposit growth remains a concern for which many banks resorted to resource mobilisation by certificate of deposits issuances and borrowings. The thrust on capex should be sustained going forward. Globally, the Fed is likely to soften rate in September 2024, whereas the softening of inflation has reinforced the chances of rate softening in India, which will be further strengthened when the RBI would convince the CPI is softening durably around the 4% inflation target of the RBI.

In sum, India's Q1FY25 GDP growth rate of 6.7% is reasonably good given heightened global uncertainties and the slow pace of international growth of 3.2 %. More importantly, this growth rate reinforces India's position as the fastest-growing economy in the world - a world where about 17 % of global growth comes from India. This is not a one-off measure, but this economic growth and structural transformation seems here to stay over the long haul with a cataclysmic impact over regions, sectors, and economies.