

Economics

India GDP: Upside surprise continues

Key takeaway: Q4FY24 GDP growth came in at 7.8% YoY, significantly higher than consensus' estimate pushing full-year growth to 8.2% YoY versus 7% in FY23. The wedge between GVA and GDP continued as net indirect taxes continued to grow stronger amid lower subsidies payout. The GVA growth of 6.3% YoY, however, was the lowest in a year as lower value addition moderated amid shrinking margin for the corporate sector and sluggish agriculture growth. The nominal GDP growth came in at 9.9% YoY versus 10.3% YoY in Q3FY24. A striking feature of growth in India over last one year has been the sustenance of capital formation in the economy supporting growth even as consumption has lagged. The share of gross fixed capital formation (GFCF) in GDP rose to 33.2% in Q4, almost the same as in Q4FY23, even as the share of private consumption (PFCE) fell to its lowest at 52.9% amid continued divergence in consumption and capex trend.

Demand and supply side: Positives and negatives

The headline GDP is encouraging, up 8.2% YoY – the highest, barring base effect-led growth of 9.7% YoY in FY22. Domestically, the capital formation momentum was evident in GFCF as it grew by 9% YoY in FY24 versus pre-Covid average of 6.2% YoY and FY23 growth of 6.6%. The share of GFCF rose to 33.5% in FY24 – the highest on record and much higher than in FY04-07 investment cycle, when it averaged at a 26.8% share in GDP (29% on FY04 base time series). On the flip side, the share of the PFCE component in GDP moderated to 55.8% in FY24, the lowest since FY18. In FY24, private consumption grew by 4% YoY, ~200bps lower than FY19-20 average.

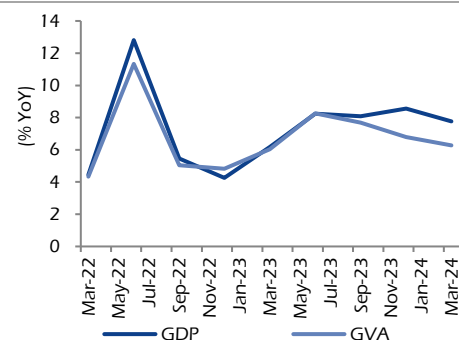
On the supply-side, GVA grew by 7.2% YoY versus 6.7% in FY23, led by a 9.5% growth in the industrial sector underpinned by ~10% YoY growth each in manufacturing and construction. The services sector moderated from 10% YoY in FY23 to 7.6% in FY24, led by almost halving of the growth pace in contact-based services (trade, hotels, transport etc.). The agriculture sector remains a pain point, wherein growth has slowed to 1.4% YoY in FY24 versus 4.7% YoY in FY23 as climate-led shocks hit output. The supply-side trends continue to point towards normalizing demand after post Covid-19 bump-up.

Outlook: We retain FY25E growth projection at 7%

We retain our growth projection of 7% YoY in FY25E and 6.8% YoY in FY26E, with a likely upside if private capex cycle gets firmly entrenched. The high frequency indicators suggest FY25 started on a relatively stable footing. Although the capex momentum has moderated owing to elections, based on the pipeline of approvals/sanctions, we expect private capex to pick up gradually from H2FY25. The government capex spending may also see a further leg-up in FY25 owing to surplus dividend receipts from the RBI.

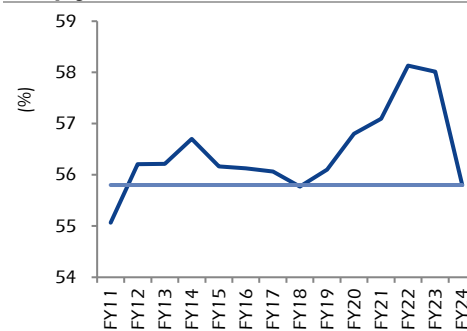
The announcement of final Budget in July 2024 by the new government (we project a comfortable victory for Modi-led BJP) with the announcements of 100-day plan may offer further policy clarity and direction as to next growth levers. The key risk to India's growth outlook, in our view, comes from potential slowdown in global economy due to lower-than-expected rate cuts by the central banks and continued geopolitical tensions. Domestically, a delay in rate cuts in the US and volatile food inflation suggest that India's rate cut cycle is unlikely to commence before Q4FY25. We expect a 25bps cut in FY25E.

Real GDP and GVA growth eased in Q4 but remain elevated



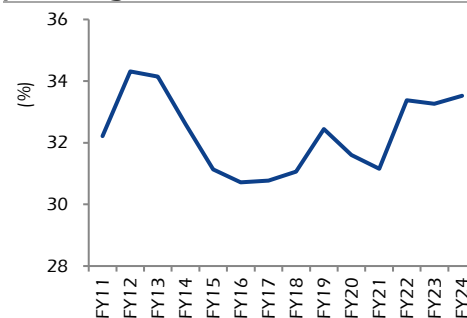
Source: CEIC, Elara Securities Research

PFCE, as percentage of GDP, moderated sharply in FY24, the lowest since FY18



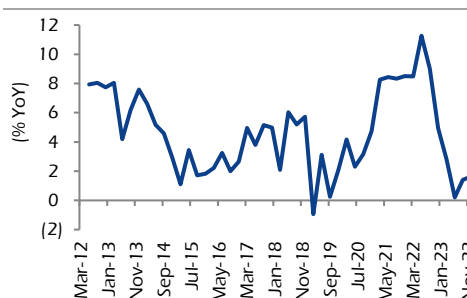
Source: CEIC, Elara Securities Research

Investment cycle on uptrend; GFCF, as percentage of GDP, at 33.5% in FY24



Source: CEIC, Elara Securities Research

GDP deflator has bottomed



Source: CEIC, Elara Securities Research

Private consumption needs attention

Net exports dragged the topline, as the former declined to ~INR 4tn in FY24 (the sharpest dip since FY20) amidst rising imports throughout the year (specially, gold imports). Elevated headline inflation underpinned by food inflation is impacting private consumer spending, especially in rural areas, where real wage growth has remained negative for most part of FY24. The lopsided consumption demand in the economy warrants attention and may see a policy response from the government. Also, continued moderation in core inflation along with forecast of normal monsoon amid the onset of La Nina from July bodes well for overall rural sentiment and consumption impulses for those at the bottom of the pyramid.

Exhibit 1: Real GVA

	(INR tn)					(%)					
	Mar-23	June-23	Sept-23	Dec-23	Mar-24	5-yr CAGR	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
GVA	39.7	38.1	38.4	40.0	42.2	4.5	6.0	8.3	7.7	6.8	6.3
Agriculture, Forestry and Fishing	6.3	5.2	4.4	7.1	6.3	3.4	7.6	3.7	1.7	0.4	0.6
Industry	12.8	11.5	11.7	11.9	13.8	5.9	3.4	6.0	13.6	10.5	8.4
Mining and Quarrying	1.0	0.9	0.7	0.8	1.0	1.0	2.9	7.0	11.1	7.5	4.3
Manufacturing	7.1	6.4	6.9	6.5	7.7	5.6	0.9	5.0	14.3	11.5	8.9
Electricity, Gas, Water Supply +	0.9	0.9	1.0	0.9	0.9	4.9	7.3	3.2	10.5	9.0	7.7
Construction	3.9	3.3	3.2	3.6	4.2	8.3	7.4	8.6	13.6	9.6	8.7
Services	20.7	21.4	22.3	21.0	22.1	4.1	7.2	10.7	6.0	7.1	6.7
Trade, Hotels, Transport, Communication and Services Related to Broadcasting	8.0	6.5	7.1	7.6	8.4	2.9	7.0	9.7	4.5	6.9	5.1
Financial, Estate and Professional Services	7.8	10.2	10.1	8.2	8.4	6.1	9.2	12.6	6.2	7.0	7.6
Public Administration, Defence and Other Services	4.9	4.7	5.1	5.2	5.2	3.0	4.7	8.3	7.7	7.5	7.8

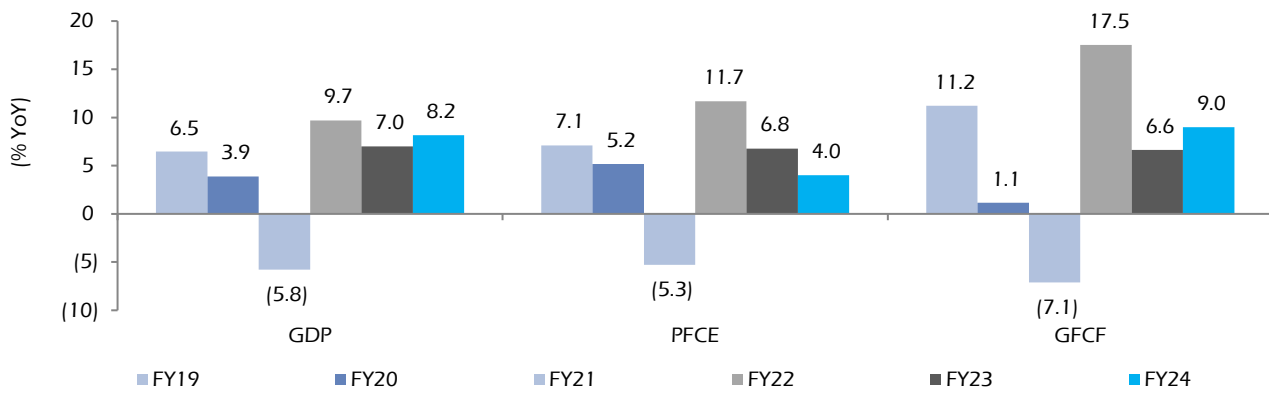
Source: CEIC, Elara Securities Research

Exhibit 2: Quarterly real GDP

	(INR tn)					(%)					
	Mar-23	June-23	Sept-23	Dec-23	Mar-24	5-yr CAGR	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
GDP	43.8	40.9	41.9	43.8	47.2	4.0	6.2	8.2	8.1	8.6	7.8
Final consumption expenditure	29.1	27.0	27.3	29.1	30.1	3.1	3.5	4.6	4.1	3.1	3.4
Pvt consumption (PFCE)	24.0	22.9	23.4	25.7	25.0	3.6	1.5	5.5	2.6	4.0	4.0
Govt. final exp.	5.1	4.2	3.8	3.4	5.1	(0.4)	13.9	(0.1)	14.0	-3.2	0.9
Gross fixed capital formation	14.7	14.1	14.4	14.1	15.7	4.5	3.8	8.5	11.6	9.7	6.5
Change in stocks	0.5	0.5	0.5	0.5	0.5	12.1	18.2	1.2	10.2	7.5	5.0
Valuables	0.4	0.3	1.1	0.8	0.7	15.3	(23.6)	(21.0)	(0.9)	63.9	72.8
Net exports	0.6	(2.3)	(1.5)	(0.8)	0.6	(4.4)	(208.6)	888.0	88.8	183.6	6.0
Exports of goods and services	10.2	8.7	10.0	9.7	11.1	6.6	12.4	(6.6)	5.0	3.4	8.1
Import of goods and services	9.6	11.1	11.5	10.5	10.4	5.4	(0.4)	15.2	11.6	8.7	8.3
Discrepancies	(1.5)	1.3	0.2	0.2	(0.4)	19.1	6.1	(181.0)	(118.0)	(113.3)	(73.4)

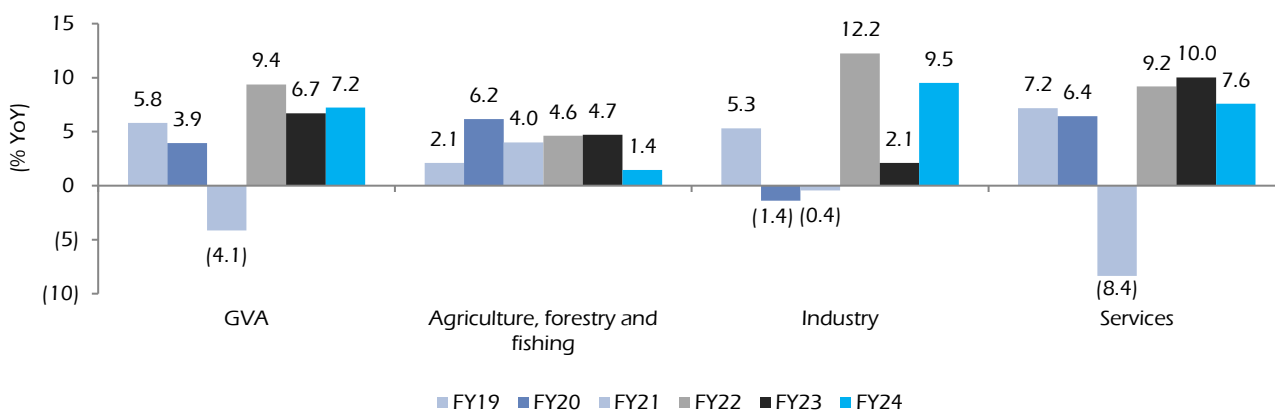
Source: CEIC, Elara Securities Research

Exhibit 3: Real GDP growth over last few years



Source: CEIC, Elara Securities Research

Exhibit 4: Sectoral GVA growth



Source: CEIC, Elara Securities Research

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India Elara Securities (India) Pvt. Ltd. One International Center, Tower 3, 21st Floor, Senapati Bapat Marg, Elphinstone Road (West) Mumbai – 400 013, India Tel : +91 22 6164 8500	Europe Elara Capital Plc. 6th Floor, The Grove, 248A Marylebone Road, London, NW1 6JZ, United Kingdom Tel : +44 20 7486 9733	USA Elara Securities Inc. 230 Park Avenue, Suite 2415, New York, NY 10169, USA Tel: +1 212 430 5870 Fax: +1 212 208 2501	Asia / Pacific Elara Capital (Asia) Pte.Ltd. One Marina Boulevard, Level 20, Singapore 018989 Tel : +65 6978 4047
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Harendra Kumar	Managing Director	harendra.kumar@elaracapital.com	+91 22 6164 8571
Sales			
Ashok Agarwal	India	ashok.agarwal@elaracapital.com	+91 22 6164 8558
Hitesh Danak	India	hitesh.danak@elaracapital.com	+91 22 6164 8543
Karan Rathod	India	karan.rathod@elaracapital.com	+91 22 6164 8570
Lekha Nahar	India	lekha.nahar@elaracapital.com	+91 22 6164 8512
Prashin Lalvani	India	prashin.lalvani@elaracapital.com	+91 22 6164 8544
Shraddha Shrikhande	India	shraddha.shrikhande@elaracapital.com	+91 22 6164 8567
Sudhanshu Rajpal	India	sudhanshu.rajpal@elaracapital.com	+91 22 6164 8508
Joshua Saldanha	Asia	joshua.saldanha@elaracapital.com	+91 22 6164 8541
Anita Nazareth	Corporate Access, Conference & Events	anita.nazareth@elaracapital.com	+91 22 6164 8520
Tina D'souza	Corporate Access	tina.dsouza@elaracapital.com	+91 22 6164 8595
Quantitative, Alternatives, Sales Trading & Dealing			
Sunil Jain	Quantitative & Alternates	sunil.jain@elaracapital.com	+91 22 6164 8531
Nandish Patel	Quantitative & Alternates	nandish.patel@elaracapital.com	+91 22 6164 8564
Biren Mehta	Head - Sales Trading	biren.mehta@elaracapital.com	+91 22 6164 8500
Kalpesh Parekh	India	kalpesh.parekh@ElaraCapital.com	+91 22 6164 8555
Manoj Murarka	India	manoj.murarka@elaracapital.com	+91 22 6164 8551
Anil Pawar	India	anil.pawar@elaracapital.com	+91 22 6164 8552
Nilesh Chheda	India	nilesh.chheda@elaracapital.com	+91 22 6164 8554
Nupur Barve	India	nupur.barve@elaracapital.com	+91 22 6164 8532

Research			
Dr Bino Pathiparampil	Head of Research	Healthcare, Pharmaceuticals, Strategy	bino.pathiparampil@elaracapital.com
Amit Purohit	Analyst	Building Materials, FMCG, Paints	amit.purohit@elaracapital.com
Ankita Shah	Analyst	Infrastructure, Ports & Logistics, Industrials	ankita.shah@elaracapital.com
Biju Samuel	Analyst	Quantitative & Alternate Strategy	biju.samuel@elaracapital.com
Gagan Dixit	Analyst	Aviation, Chemicals, Oil & Gas	gagan.dixit@elaracapital.com
Garima Kapoor	Economist		garima.kapoor@elaracapital.com
Harshit Kapadia	Analyst	Capital Goods, Consumer Electronics	harshit.kapadia@elaracapital.com
Jay Kale, CFA	Analyst	Auto & Auto Ancillaries	jay.kale@elaracapital.com
Karan Taurani	Analyst	Media & Entertainment, Alcobev, OSR, Internet	karan.taurani@elaracapital.com
Prakhar Agarwal	Analyst	Banking & Financials	prakhar.agarwal@elaracapital.com
Prashant Biyani	Analyst	Agrochemicals, Fertilisers, Hotels, Sugar	prashant.biyani@elaracapital.com
Prerna Jhunjhunwala	Analyst	Textiles, Retail	prerna.jhunjhunwala@elaracapital.com
Rahul Jain, CFA	Analyst	Real Estate	rahul.jain@elaracapital.com
Ravi Sodah	Analyst	Cement, Metals & Mining	ravi.sodah@elaracapital.com
Rupesh Sankhe	Analyst	Utilities, Renewables	rupesh.sankhe@elaracapital.com
Shweta Daptardar	Analyst	Diversified Financials, Non Lending Financials	shweta.daptardar@elaracapital.com
Saurabh Mitra	Sr. Associate	Cement, Metals & Mining	saurabh.mitra@elaracapital.com
Aditya Jaiswal	Associate	Strategy	aditya.jaiswal@elaracapital.com
Amogh Deshpande	Associate	Aviation, Chemicals, Oil & Gas	amogh.deshpande@elaracapital.com
Bhavi Shah	Associate	Cement, Metals & Mining	bhavi.shah@elaracapital.com
Devarshi Raj	Associate	Diversified Financials, Non Lending Financials	devarshi.raj@elaracapital.com
Gnyan Thaker	Associate	Textiles, Retail	gnyan.thaker@elaracapital.com
Jinesh Kothari	Associate	Infrastructure, Ports & Logistics	jinesh.kothari@elaracapital.com
Kartik Bhandari	Associate	Aviation, Chemicals, Oil & Gas	kartik.bhandari@elaracapital.com
Kartik Solanki	Associate	Banking & Financials	kartik.solanki@elaracapital.com
Kashish Thakur	Associate	Healthcare, Pharmaceuticals	kashish.thakur@elaracapital.com
Keval Shah	Associate	Strategy	keval.shah@elaracapital.com
Mihir Vora	Associate	Auto & Auto Ancillaries	mihir.vora@elaracapital.com
Mudit Kabra	Associate	Capital Goods, Consumer Electronics	mudit.kabra@elaracapital.com
Nemish Sundar	Associate	Capital Goods, Consumer Electronics	nemish.sundar@elaracapital.com
Nishant Chowhan, CFA	Associate	Auto & Auto Ancillaries	nishant.chowhan@elaracapital.com
Palak Shah	Associate	Banking & Financials	palak.shah@elaracapital.com
Ragini Pande	Associate	Utilities, Renewables	ragini.pande@elaracapital.com
Rohit Harlikar	Associate	Building Materials, FMCG, Paints	rohit.harlikar@elaracapital.com
Rounak Ray	Associate	Media & Entertainment, Alcobev, OSR, Internet	rounak.ray@elaracapital.com
Runit Kapoor	Associate	Healthcare, Pharmaceuticals	runit.kapoor@elaracapital.com
Shweta Roy	Associate	Economics	shweta.roy@elaracapital.com
Subhankar Sanyal	Associate	Economics	subhankar.sanyal@elaracapital.com
Tanvi Tambat	Associate	Real Estate	tanvi.tambat@elaracapital.com
Ujwal Wadighare	Associate	Agrochemicals, Fertilisers, Hotels, Sugar	ujwal.wadighare@elaracapital.com
Vidhi Puj	Associate	Building Materials, FMCG, Paints	vidhi.puj@elaracapital.com
Vinayak Patil	Database		vinayak.patil@elaracapital.com
Priyanka Sheth	Editor		priyanka.sheth@elaracapital.com
Prakriti Singh	Editor		prakriti.singh@elaracapital.com
Gurunath Parab	Production		gurunath.parab@elaracapital.com
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Elara Securities (India) Private Limited

Registered Office Address: One International Center, Tower 3, 21st Floor, Senapati Bapat Marg,
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 Compliance Officer: Mr. Anand Rao - Email ID: anand.rao@elaracapital.com - Tel. +91 22 6164 8509