

Growth outlook improving

1 March 2025

India's Q3FY25 growth rebounded to 6.2% YoY versus Q2FY25 low of 5.4% YoY and tad below our estimates of 6.4%. Private consumption spending (PFCE) rose ~7% YoY in Q3, equivalent to ~60% of GDP, reflecting festival season demand and impact of higher government spending, while gross fixed capital formation (GFCF) at 5.7% YoY (at ~32% of GDP) recorded moderation. On the supply side, services growth outpaced overall GVA growth rate and the agriculture sector continued to trend up. The second advanced estimates (SAE) from NSO pegs FY25 growth at 6.5% (revised up 10bps versus first estimate). We estimate a tailwind of 15-20bps in Q4FY25E due to Maha Kumbh and expect GDP growth to be in the range of 7.1-7.2% in Q4FY25E after accounting for a possible downward revision to Q4FY24 GDP print.

We estimate full-year GDP growth at 6.4%, tad below CSO's estimate of 6.5%. For FY26E, we retain our growth at 6.4% YoY, with external sector developments being the primary headwind. On the monetary policy front, our base-case remains of another 50bps of rate cuts (25bps cut in Apr-25). With headwinds to a sustained growth recovery above 6.5% persisting, we do not out rule out one more 25bps cut near end-FY26E as global risks persist. Cyclically, growth has bottomed out and the economy should see a steady growth momentum of 6.2-6.5% if momentum in reform picks pace.

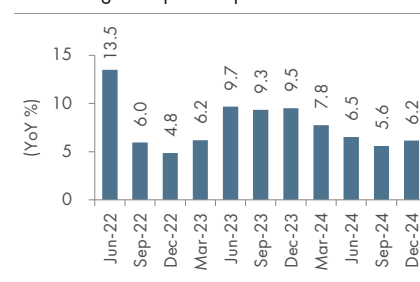
Capital formation growth moderating for three quarters: In contrast to the sluggish commentary from listed companies in the consumption space, growth in private spending component (PFCE) rose by ~7% YoY versus 5.9% in Q2, suggesting that at the macro level, overall demand has held. On the contrary, capital formation (GFCF) rose by ~5.7%, nearly flat versus Q2FY25. Private consumption growth outpaced capital formation growth by ~125bps in Q3FY25, three consecutive quarters of outperformance as the impact of a slowdown in government spending permeates. Pick up in central government capex in Q3FY25 (47.7% YoY versus 10.3% YoY in Q2FY25 and 24.4% in Q3FY24) supported GFCF growth at ~5.7% YoY although its share in GDP dipped to 31.9%, the lowest since Q3FY22.

Overall, consumption trends are gradually showing signs of bottoming out, underpinned by steady nominal rural wage growth of 6.2% (Q3/Q3) and gradual bottoming out of urban demand growth as tax rebate by the government, ease in policy rates and easing of macro prudential guidelines aid recovery.

Domestic business cycle has turned, external sector outlook, the key hereon: On the supply side, growth in the manufacturing sector slightly picked pace, improving from Q2FY25 trough of 2.2% YoY to 3.5% YoY in Q3, and the construction sector value added rose by 7% YoY, easing slightly from the pace of growth seen in Q2FY25 and Q3FY24. Our business cycle models point to nascent signs of an upturn with high frequency indicators pointing to manufacturing activity picking pace in Q4 and Q1FY26E.

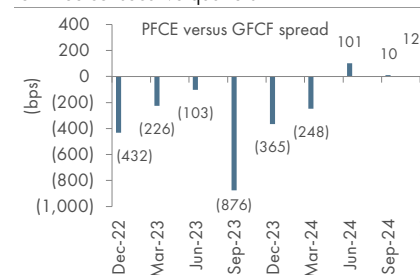
However, trade related uncertainties are key headwinds to recovery as operating profit growth of India's listed companies (non-financial) has had a positive correlation of 45% with overall merchandise trade growth in the past decade. If reciprocal tariff materializes, India's exports to the US are likely to come under pressure. Our calculations using CY23 UN and ITC trade data reveal that India faces a 2.4% tariff (export weighted) on exports to the US while applies an 18% tariff (import weighted) on imports from the US – an imbalance of ~16pps (tariff applied minus faced). Our analysis reveals that ~94% of India's exports to US had a tariff disbalance as on CY23, of which ~USD 33bn of export items have a tariff disbalance of >10pps (43.3% of overall exports to the US). Expect ~40-70bps downside to India's GDP growth in the event of across-the-board reciprocal tariffs, thus offsetting the likely benefits of personal tax rebate estimated at 43bps (Elara Estimates). The impact is likely to play out in the next 12-18 months as global manufacturing supply chains adjust to trade barriers.

Real GDP growth picked up in Q3FY25



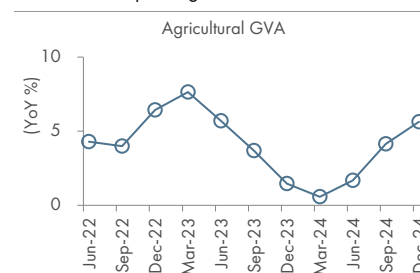
Source: CEIC, Elara Securities Research

Private spending growth outpacing capex growth for three consecutive quarters



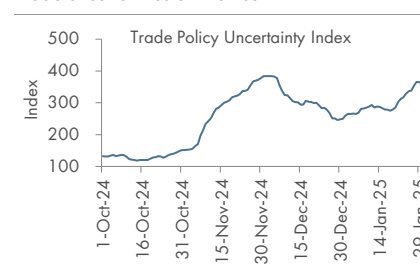
Source: CEIC, Elara Securities Research.

Rural sector improving



Source: CEIC, Elara Securities Research

Trade uncertainties on the rise



Source: Caldara, Dario, Matteo Iacoviello, Patrick Malligo, Andrea Prestipino, and Andrea Raffo (2020), "The Economic Effects of Trade Policy Uncertainty," Journal of Monetary Economics, 109, pp.38-59., Elara Securities Research

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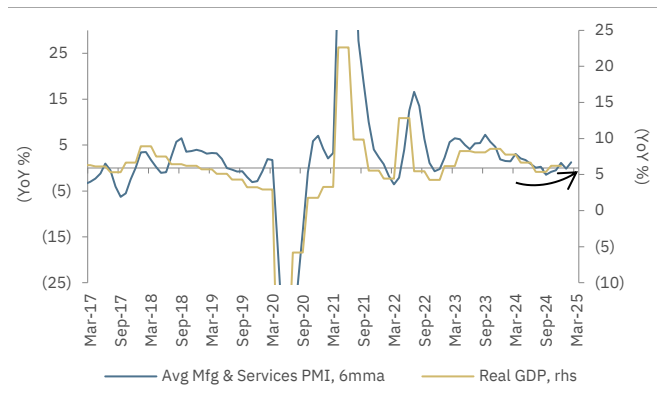
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Outlook – We retain GDP growth projection at 6.4% for both FY25E and FY26E: We estimate GDP growth to be in the range of 7.1-7.2% in Q4FY25E after accounting for a possible downward revision to Q4FY24 GDP print. We see FY25E GDP growth at 6.4%, in line with the RBI’s estimate and a tad below CSO’s estimate of 6.5% We quantify the impact of Maha Kumbh on India’s GDP at 15-20bps in Q4FY25E. Even with positive tailwinds from Kumbh, easing RBI policy and potentially continuous pick up in the center’s capex, the tendency of reorientating supply chain to bypass/prevent Trump tariffs coupled with a weak USDINR can be drag on Q4FY25.

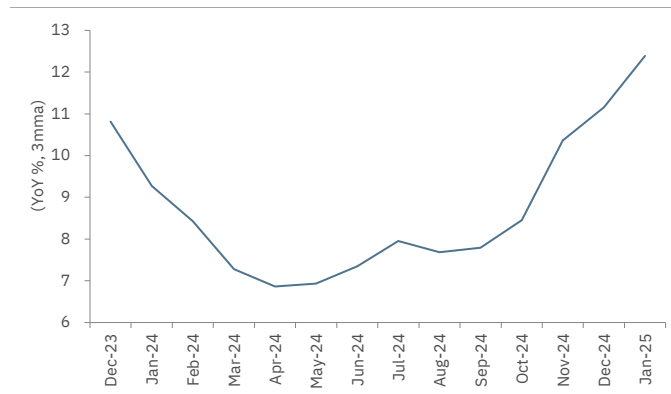
On the policy side, our base-case remains of RBI undertaking a 50bps rate cut in FY26E although we do not rule out another 25bps cut near end-FY26E, if risks to growth amplify more than expected. On the fiscal side, effects of personal income tax cuts will be closely watched – inclination to repay loans from incremental cash inflow is likely to limit positive impulse from personal spending on overall growth although the RBI’s easing stance on unsecured credit and policy rate cuts will be added positives.

Exhibit 1: India’s business cycle is turning



Source: CMIE, CEIC, Elara Securities Research

Exhibit 2: Air passenger growth on an uptrend



Source: CEIC, Elara Securities Research

Exhibit 3: India – High frequency indicators show nascent signs of improvement

Components	Units (3mma)	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
Services PMI	Index	Red	Orange	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Two wheelers registered	% YoY	Yellow	Green	Green	Yellow	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
LMV registered	% YoY	Yellow	Green	Green	Yellow	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Naukri Jobspeak	Index	Red	Red	Orange	Yellow	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
e-commerce trans. (cards)	% YoY	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Air passenger traffic	% YoY	Green	Green	Yellow	Orange	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
Petrol consumption	% YoY	Red	Orange	Orange	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Toll collection	% YoY	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Electricity demand	% YoY	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Manufacturing PMI	Index	Red	Red	Red	Yellow	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Electricity generation	% YoY	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Diesel consumption	% YoY	Orange	Red	Red	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Rail freight traffic	% YoY	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Core Sector	% YoY	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Tractor regd.	% YoY	Orange	Yellow	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Goods vehicles registered	% YoY	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
e-way bill generation	% YoY	Green	Red	Red	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Trade balance	USD bn	Orange	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Imports	% YoY	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Exports	% YoY	Orange	Orange	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Imports NO-NG	% YoY	Orange	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
Non-food credit	% YoY	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
GST collection	INR tn	Red	Red	Red	Orange	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green

Note: Green = improving; Source: CEIC, Elara Securities Research

Exhibit 4: India real GDP and GVA

	(INR tn)							(%)		
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Dec-23	Sep-24	Dec-24
GVA	38.9	39.1	40.6	42.2	41.5	41.4	43.1	8.0	5.8	6.2
Agriculture, Forestry and Fishing	5.4	4.6	7.3	6.3	5.5	4.8	7.7	1.5	4.1	5.6
Industry	11.7	11.9	12.1	13.8	12.7	12.4	12.6	11.8	3.8	4.5
Mining and Quarrying	0.8	0.7	0.8	1.0	0.9	0.7	0.8	4.7	-0.3	1.4
Manufacturing	6.6	7.1	6.7	7.7	7.1	7.2	7.0	14.0	2.1	3.5
Electricity, Gas, Water Supply +	1.0	1.0	0.9	0.9	1.1	1.0	1.0	10.1	3.0	5.1
Construction	3.4	3.2	3.6	4.2	3.7	3.5	3.9	10.0	8.7	7.0
Services	21.8	22.6	21.3	22.1	23.3	24.3	22.8	8.3	7.2	7.4
Trade, Hotels, Transport, Communication and Services Related to Broadcasting	6.5	7.1	7.7	8.4	6.9	7.6	8.2	8.0	6.1	6.7
Financial, Estate and Professional Services	10.6	10.5	8.4	8.4	11.3	11.2	9.1	8.4	7.2	7.2
Public Administration, Defence and Other Services	4.7	5.0	5.1	5.2	5.1	5.5	5.5	8.4	8.8	8.8
GDP	41.7	42.5	44.4	47.2	44.4	44.9	47.2	9.5	5.6	6.2
Final Consumption Expenditure	27.6	27.5	29.7	30.1	29.4	29.1	31.8	5.3	5.6	7.1
Pvt consumption	23.4	23.7	26.3	25.0	25.2	25.1	28.1	5.7	5.9	6.9
Govt. final exp.	4.2	3.9	3.5	5.1	4.2	4.0	3.7	2.3	3.8	8.3
Gross Fixed Capital Formation	14.4	14.6	14.2	15.7	15.4	15.4	15.1	9.3	5.8	5.7
Exports of Goods and Services	8.5	9.6	9.4	11.1	9.1	9.9	10.4	3.0	2.5	10.4
Import of Goods and Services	11.1	11.5	10.7	10.4	11.1	11.3	10.5	11.3	(2.5)	(1.1)

Source: CEIC, Elara Securities Research

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