

India's Q2FY25 GDP Actual Growth Report

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Introduction

Gross Domestic Product (GDP), a crucial indicator of a country's economic health, represents the total value of goods and services produced within its borders. Analyzing **India's Q2FY25 GDP actual growth** provides insights into the country's economic performance and future prospects. This report examines recent trends in India's GDP growth and its implications for the Indian economy, focusing on some of the core sectors (IT, Pharmaceuticals, Auto & Engineering, Oil & Gas, FMCG) and their stock performance. Understanding GDP growth trends allows us to assess the driving forces behind India's economic performance, identify challenges and opportunities, and evaluate its future prospects.

The Indian economy has changed a lot from the pre COVID era - for instance, the impact of interest rate changes is now visible more than ever because the credit growth is higher - people in the urban settings can afford loans due to higher stable incomes. We'll be diving deeper into what has changed and how the road looks going forward.

Factors Influencing the Actual GDP Growth Rate

India's Q2FY25 GDP growth came in at a lower-than-expected 5.4%, significantly below the Reserve Bank of India's (RBI) projection of 7%. This growth was almost 1% lower than the lowest expectation of 6.3%

Several factors contributed to this underperformance:

1. **Slowdown in Core Sectors:** Key industries such as mining, cement, crude oil, petroleum products, and steel experienced a slowdown, impacting overall economic momentum.
2. **Sluggish Industrial Production:** Industrial production growth weakened to 3.1% in September, highlighting a broader slowdown trend.
3. **Softening Urban Consumption:** Urban spending which actually did the heavy lifting in the last 2 years, particularly in the automobile and Fast-Moving Consumer Goods (FMCG) sectors, declined due to factors like reduced government spending, a slowdown in construction and infrastructure projects, and prolonged high inflation impacting household budgets.
4. **Inventory Management Issues:** High unsold stockpiles, especially in the passenger vehicle segment, burdened dealers, leading to aggressive discounting and impacting dealer profits and cash flow. This is however an auto-sector-only headwind.
5. **Inflation and Reduced Purchasing Power:** The surge in food prices eroded household purchasing power, especially in urban areas, leading to a decline in non-essential spending.
6. **RBI's Tight Monetary Policy:** The RBI's focus on controlling inflation through increased interest rates made borrowing more expensive, potentially impacting investment and consumption.
7. **Election-Driven Capex Slowdown:** The election code of conduct impacted government capital expenditure, leading to a slowdown in this crucial growth driver. India experienced 3 big elections in a span of 6 months.

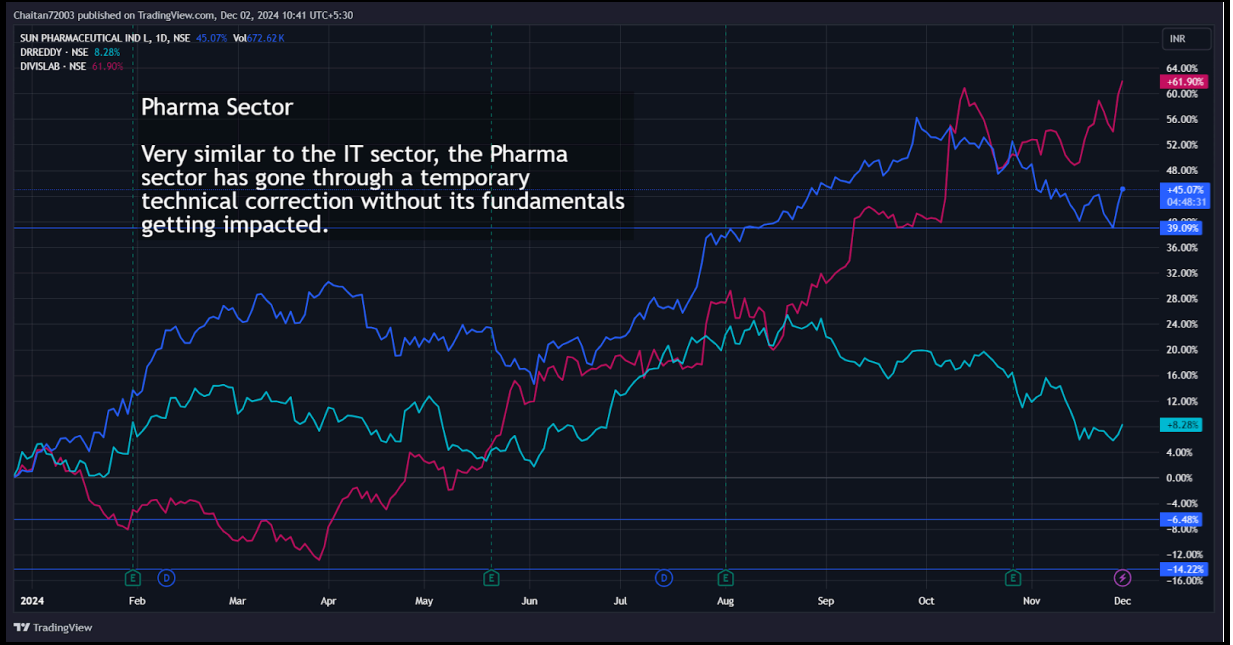
Impact of GDP Growth on Economy, Sectors, and Stocks

| INDIA'S GROWTH TRAJECTORY | | |
|---------------------------|--------|--------|
| Internals | Q1FY25 | Q2FY25 |
| Agri | 2% | 3.5% |
| Manufacturing | 7% | 2.2% |
| Mining | 7.2% | -0.1% |
| Construction | 10.5% | 7.7% |
| Fin & Realty | 7.1% | 6.7% |

The lower-than-expected GDP growth impacted various aspects of the Indian economy:

1. **Economic Momentum:** The slowdown in core sectors, industrial production, and urban consumption poses challenges to maintaining strong economic momentum.
2. **Sectoral Performance and Stock Market Sentiment:** Some sectors like rural consumption and consumer goods displayed resilience, while others like automobiles, FMCG, and core industries faced headwinds, creating uncertainty. Economic slowdown and inflationary pressures negatively impact stock market sentiment, leading to volatility and potentially lower valuations - And that is what happened in the month of October and November.





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RELIANCE INDUSTRIES LTD, 1D, NSE 0.24% Vol: 32.1M
ONGC - NSE 23.34%

Oil & Gas Sector

The rising forex bills due to the depreciating Indian Rupee has pressurised the margins of Oil and Gas companies.



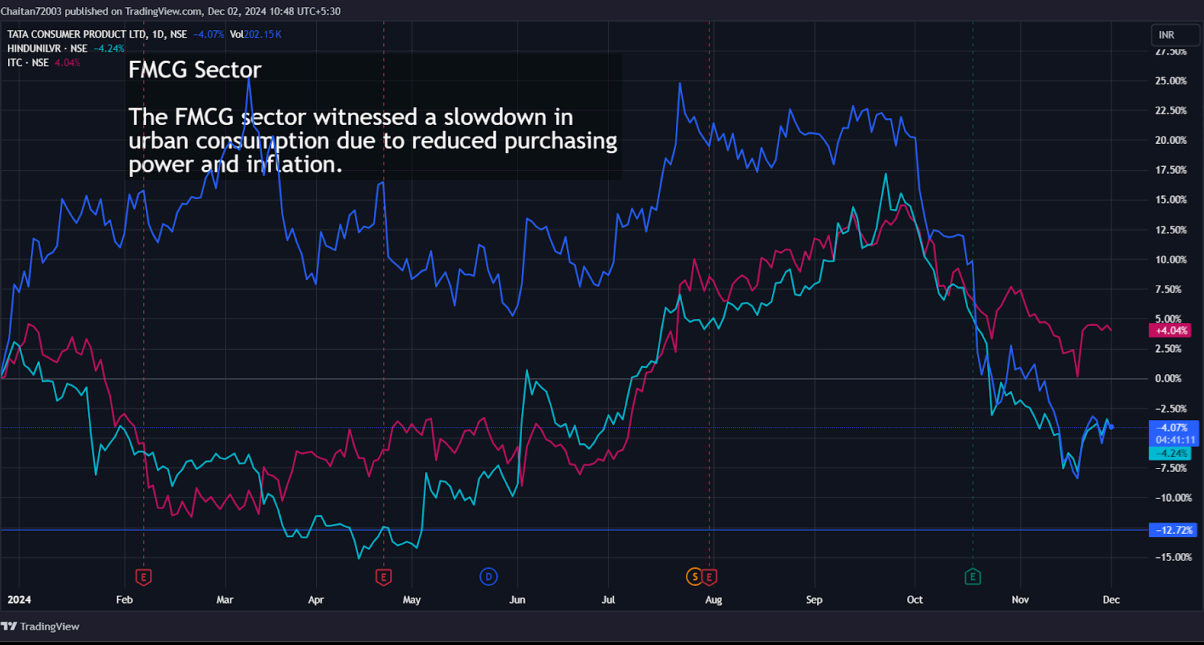
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TATA CONSUMER PRODUCT LTD, 1D, NSE -4.07% Vol: 202.15 K
HINDUNILVR - NSE -4.24%
ITC - NSE 4.04%

FMCG Sector

The FMCG sector witnessed a slowdown in urban consumption due to reduced purchasing power and inflation.



TradingView



Forecast and Future Outlook

Despite the Q2 slowdown, projections for India's GDP growth remain optimistic.

Forecasts from Various Institutions:

Moody's: Projects 7.2% growth in 2024, 6.6% in 2025, and 6.5% in 2026.

S&P: Retains India's FY25 GDP growth forecasts but cuts FY26 and FY27 forecasts by 20 bps.

ICRA: Expects 7.3% growth for H2FY25; 6-6.5% growth for FY25 and a capex bump. No interest rate cut in December but a higher likelihood of a February interest rate cut.

HDFC Bank: They say the stock market correction of 11.5% already included most of the anticipated negatives. They too expect a 6-6.5% growth for FY25 with some downside risks to it.

SBI: Expects FY25 growth closer to 7%.

Deutsche Bank: They too agree on 6-6.5% growth for FY25 given the government bumps up the capex figures and the GDP grows by around 7% for the remaining 2 quarters.

Factors Influencing the Forecast

Recovering Household Spending: Anticipated gradual recovery, fueled by festival demand and increased rural expenditure, supports the positive outlook.

1. Easing Inflation: Expected gradual easing of inflation should improve consumer sentiment and support growth.
2. Government Initiatives: Continued focus on infrastructure development and investment-friendly policies are expected to stimulate economic activity.
3. Robust Sectoral Performance: Strong performance in sectors like manufacturing, two-wheeler production, and non-oil exports underpins the optimistic outlook.

Expected Impact of Anticipated GDP Growth on Economy, Sectors, and Stocks

The projected GDP growth, if realized, will have several impacts:

1. Sustained Economic Growth: Continued economic expansion could lead to increased employment opportunities, higher incomes, and improved living standards, but could also contribute to renewed inflationary pressures.
2. Sectoral Growth and Stock Market Performance: Sectors with positive trends, like consumer goods and rural consumption, are likely to benefit, while sectors facing headwinds may need to adapt. Positive growth forecasts could boost investor confidence, potentially leading to a positive stock market impact. However, factors like inflation and global economic conditions will continue to influence market dynamics.

Talking about the few stocks among the already discussed core sectors which are expected to show resilience and probably an uptrend in the current economic condition:

- a. HCL Tech and Infosys are expected to continue their resilient run and are definitely good purchases at the moment.
- b. Sun Pharma is also continuing its brilliant uptrend and is a favourite of the mutual funds too.
- c. Mahindra & Mahindra (M&M) and Tata Motors are two great stocks to capitalise on the rising Indian automotive expertise. However, Tata Motors has gone through a big correction citing its temporary underperformance in Q2FY25 earnings due to already anticipated issues. Stocks like Uno Minda - in the automotive supply side is another great purchase at the moment.
- d. Nothing from the Oil & Gas sector right now - However stocks like RIL and ONGC could be decent contra bets for the long term.
- e. Nothing from the FMCG sector as well - However quality stocks like Tata Consumer and ITC are trading at attractive valuations.

- f. The Ports and Logistics sector offers a great playbook for investors looking to benefit from the rise in India's Port sector. Adani Ports & SEZ is a great addition citing its very attractive valuation. JSW Infra is another great stock to add on from here.

- g. Bonus Pick : Larsen & Toubro is a very well diversified company and the stock is trading at right valuations. Investors looking to benefit from the improving Infrastructure and Construction sector growth of India can seriously buy into any dips of the L&T stock.

Conclusion

India's economic outlook presents a mixed picture with both challenges and opportunities. While Q2FY25 GDP growth fell short of expectations, projections remain optimistic for continued growth in the coming years. The biggest culprits of this recent underperformance is undoubtedly **a) Lower Government Capex due to Election Code of Conduct** and **b) Lower Consumption arising due to Food Inflation**.

However, the actual trajectory will depend on how effectively India manages domestic challenges like inflation and capitalizes on factors like recovering household spending, government initiatives, and robust sectoral performance. Global economic conditions will also play a crucial role in shaping India's future economic landscape. Despite the recent slowdown, **India remains the most attractive investment destination with strong tailwinds and long-term growth prospects**.