panorama

December 2024

Key Insights:

India's GDP growth slowed to a seven-quarter low of 5.4% YoY in Q2FY25

- Manufacturing sector pulled down the GDP growth in Q2FY25, while services remained resilient
- Manufacturing was impacted by a sharp contraction in the operating profit of listed companies and weaker IIP
- Consumption growth moderated on weak urban demand while the rural sector reported recovery
- Central government capital expenditure (Capex) contracted by 15% YoY during April–October 2024
- Capex by listed companies continues to trend higher at a decent pace, while industrial orders remain resilient

Prospects for rural consumption remain bright, while urban may be slow to recover

- Urban FMCG volumes remained weak in the September quarter, while rural volume growth outperformed
- The outlook for rural demand remains positive on record kharif production and encouraging rabi prospects
- Weak employment generation leading to a slowdown in urban consumption
- Visible green shoots in hiring activity with pick up in IT hiring and improvement in EPFO subscriber additions

Weaker-than-expected corporate results in Q2FY25 lead to earnings downgrades

- Weak economic growth reflected in disappointing corporate results in Q2FY25
- Key economic data released so far in Q3 do not reflect strength in economic activity
- FY25 GDP could fall short of the RBI's revised projection of 6.6% YoY, downgraded from 7.2% YoY earlier
- **We expect the RBI to cut the repo rate by 25 bps in the February 2025 policy**

Growth Assessment & Outlook

India's GDP growth slowed to a seven-quarter low of 5.4% YoY in Q2FY25

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The deceleration was primarily caused by a slowdown in industries, while the services sector largely maintained momentum

Real Growth YoY%	Share	FY24	FY24				FY25	
Sector	**FY24**		**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Agriculture	**15%**	**1.4%**	**3.7%**	**1.7%**	**0.4%**	**0.6%**	**2.0%**	**3.5%**
Industry	**22%**	**9.3%**	**5.0%**	**13.6%**	**10.8%**	**8.3%**	**7.4%**	**2.1%**
Mining	2%	7.1%	7.0%	11.1%	7.5%	4.3%	7.2%	(0.1%)
Manufacturing	17%	9.9%	5.0%	14.3%	11.5%	8.9%	7.0%	2.2%
Electricity	2%	7.5%	3.2%	10.5%	9.0%	7.7%	10.4%	3.3%
Services	**64%**	**7.9%**	**10.4%**	**6.9%**	**7.5%**	**7.0%**	**7.7%**	**7.1%**
Construction	9%	9.9%	8.6%	13.6%	9.6%	8.7%	10.5%	7.7%
Trade, Hotels, Transport, Communication	19%	6.4%	9.7%	4.5%	7.0%	5.1%	5.7%	6.0%
Financial services, Real estate, Professional Services	23%	8.4%	12.6%	6.2%	7.0%	7.6%	7.1%	6.7%
Public Admin, Defence &Other Services	13%	7.8%	8.3%	7.7%	7.5%	7.8%	9.5%	9.2%
Real GVA	**100%**	**7.2%**	**8.3%**	**7.7%**	**6.8%**	**6.3%**	**6.8%**	**5.6%**
Real GDP		**8.2%**	**8.2%**	**8.1%**	**8.6%**	**7.8%**	**6.7%**	**5.4%**

Agricultural growth recovered on account of a good kharif crop season

Manufacturing sector growth moderated due to a decline in the operating profit growth of listed manufacturing firms and weaker IIP manufacturing

The construction sector lost momentum due to muted growth in cement production and a decline in steel consumption growth

Credit growth has moderated from ~16% YoY in May'24 to ~11% YoY by Nov'24

Gross Value Added (GVA), a better indicator of growth than GDP, falls to 5.6% YoY from 6.8% in Q1FY25

GDP = GVA + (indirect taxes – subsidies)

Source: MOSPI, 360 ONE Asset Research

Manufacturing sector pulled down the GDP growth in Q2FY25

Manufacturing firms reported a steeper contraction in operating profit in Q2, while IIP manufacturing moderated further

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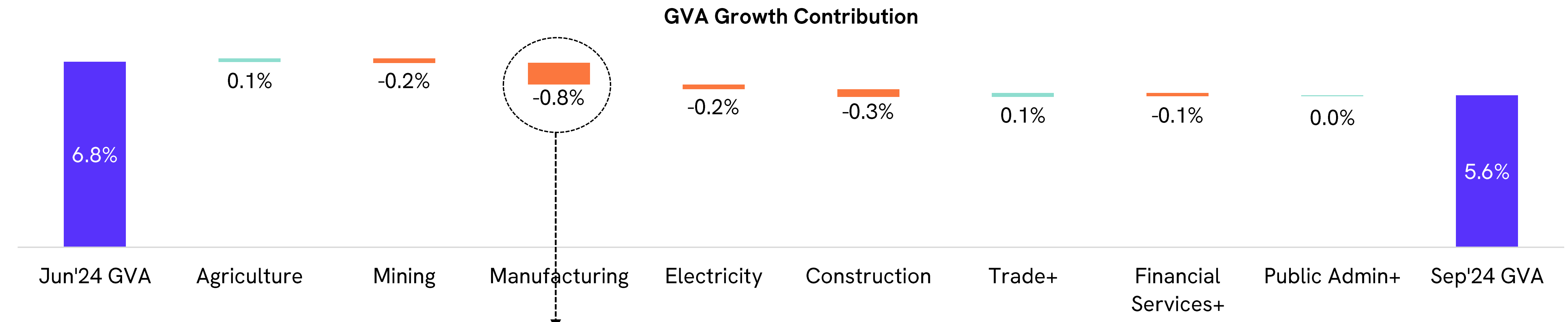

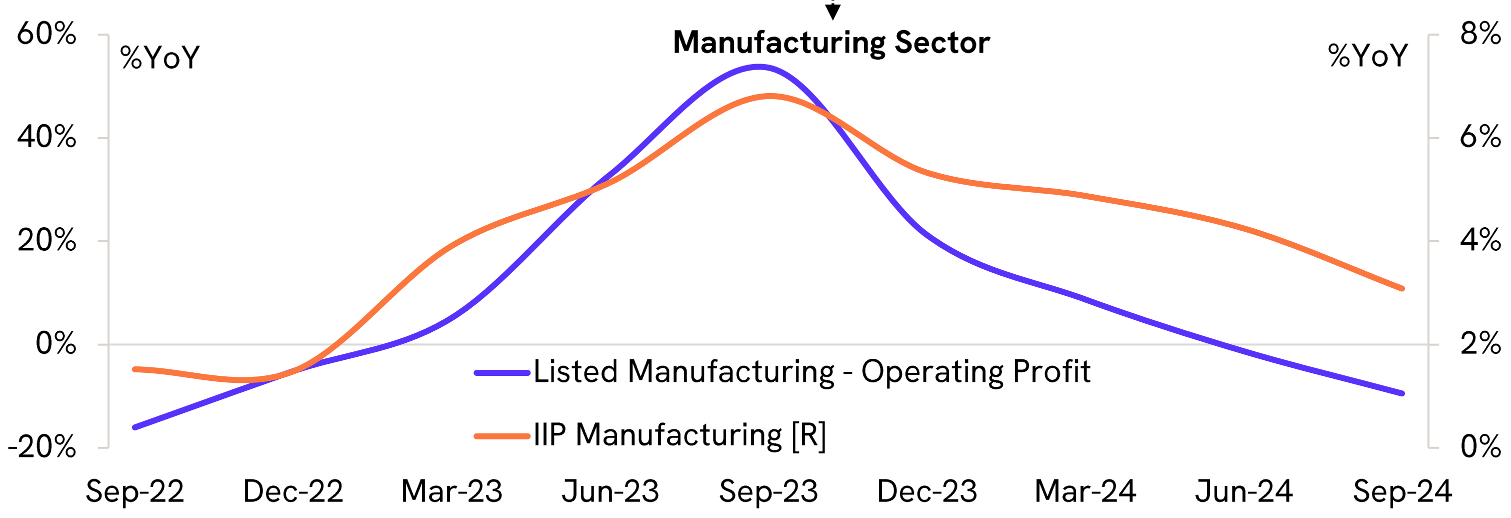

India's GVA growth decreased to 5.6% YoY in Q2 FY25 from 6.8% YoY in the previous quarter

The manufacturing sector contributed negatively by 0.8 percentage points to this decline

The weakness in the manufacturing sector was on account of a sharp contraction in the operating profit of listed manufacturers in the September quarter and the continued moderation in IIP manufacturing growth

Source: MOSPI, CMIE, ACE Equity, 360 ONE Asset Research

Note: Listed manufacturing operating profit based on a sample of 1780+ companies, IIP – Index of Industrial Production

Investment growth witnessed a steep decline in Q2

Consumption growth also moderated on weak urban demand while rural sector reported recovery

Real Growth YoY%	Share FY24	FY24	FY24				FY25	
			Q1	Q2	Q3	Q4	Q1	Q2
Consumption Expenditure	**65%**	**3.8%**	**4.6%**	**4.1%**	**3.1%**	**3.4%**	**6.3%**	**5.7%**
Private Consumption	56%	4.0%	5.5%	2.6%	4.0%	4.0%	7.4%	6.0%
Government Consumption	10%	2.5%	-0.1%	14.0%	-3.2%	0.9%	-0.2%	4.4%
Gross Capital Formation	**36%**	**12.2%**	**7.5%**	**10.7%**	**11.5%**	**8.0%**	**7.1%**	**5.9%**
Fixed Investments	34%	9.0%	8.5%	11.6%	9.7%	6.5%	7.5%	5.4%
Changes in Stocks	1%	5.9%	1.2%	10.2%	7.5%	5.0%	5.6%	1.3%
Valuables	2%	21.2%	-21.0%	-0.9%	63.9%	72.8%	-11.4%	14.4%
Exports	**23%**	**2.6%**	**-6.6%**	**5.0%**	**3.4%**	**8.1%**	**8.7%**	**2.8%**
Less Imports	**25%**	**10.9%**	**15.2%**	**11.6%**	**8.7%**	**8.3%**	**4.4%**	**-2.9%**
Real GDP	**100%**	**8.2%**	**8.2%**	**8.1%**	**8.6%**	**7.8%**	**6.7%**	**5.4%**

Private consumption eased in Q2 after witnessing a recovery in Q1

Government consumption recovered as spending picked up post-election

Fixed investment growth disappointed despite partial recovery in central government capex in Q2

External trade made a net positive contribution to GDP on account of contraction in real imports

Source: MOSPI, 360 ONE Asset Research

Central government capital expenditure has been subdued in FYTD25

Capital expenditure by listed companies has grown at a decent pace despite the election-related uncertainty in Q1

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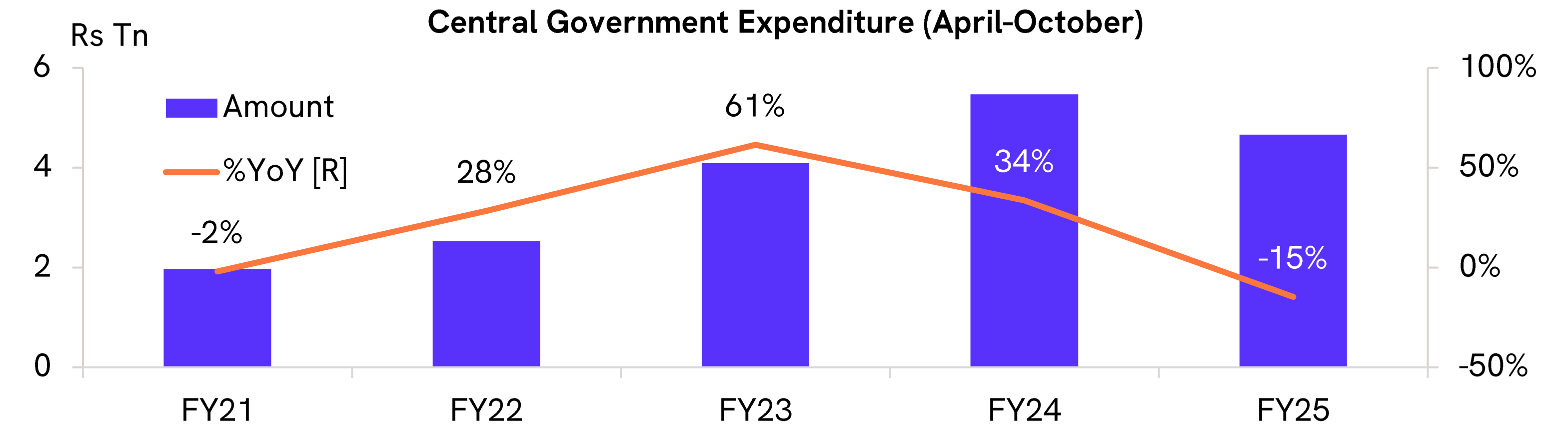
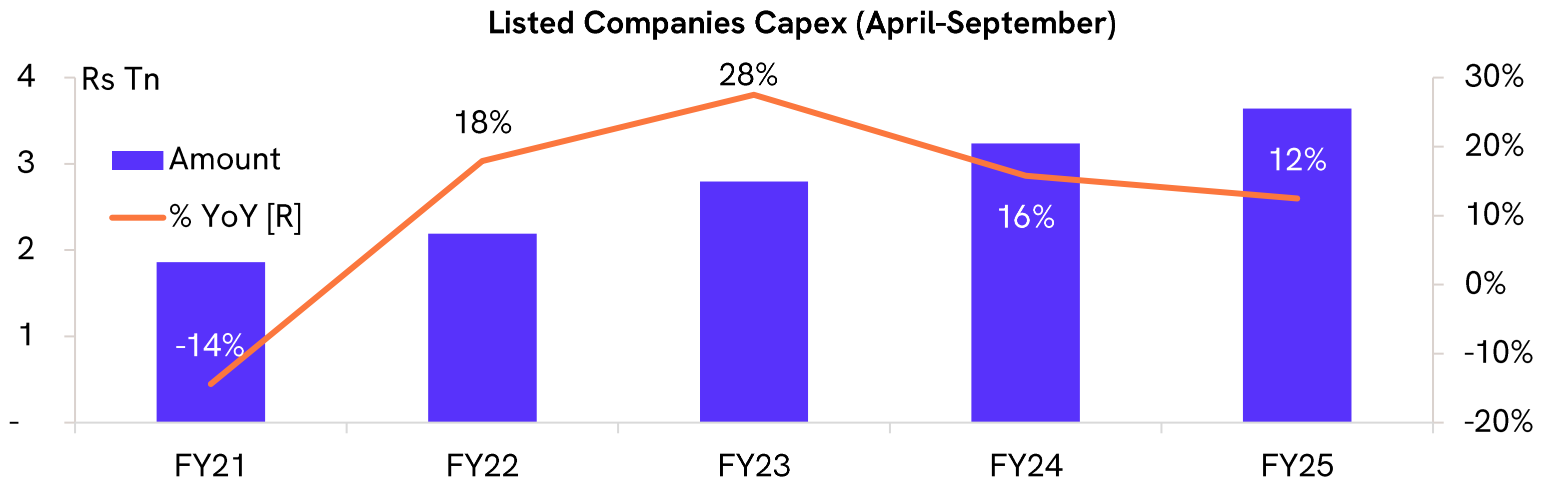


Central government capital expenditure contracted by 15% YoY during April–October 2024

The decline in capex was partly due to the general elections in Q1FY25

The pace is expected to pick up in the coming months, but the government may find it difficult to achieve the budgeted target of Rs 11.1 trillion in capex for FY25



Capex by listed companies continues to trend higher at a decent pace, despite election-related uncertainty in Q1 FY25

As highlighted in the June 2024 issue of Panorama, private investment momentum is expected to persist, supported by high asset turnover and capacity utilization

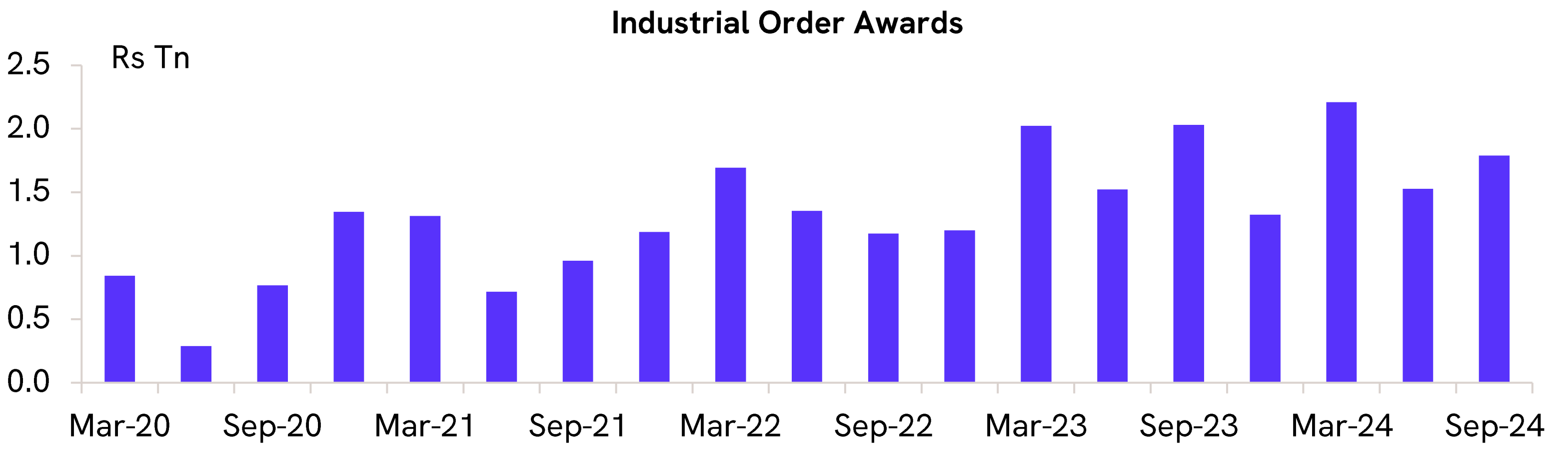
However, a subdued consumption environment remains a near-term risk

Source: CGA, ACE Equity, 360 ONE Asset Research

Note: Listed companies capex based on a sample of 960+ companies

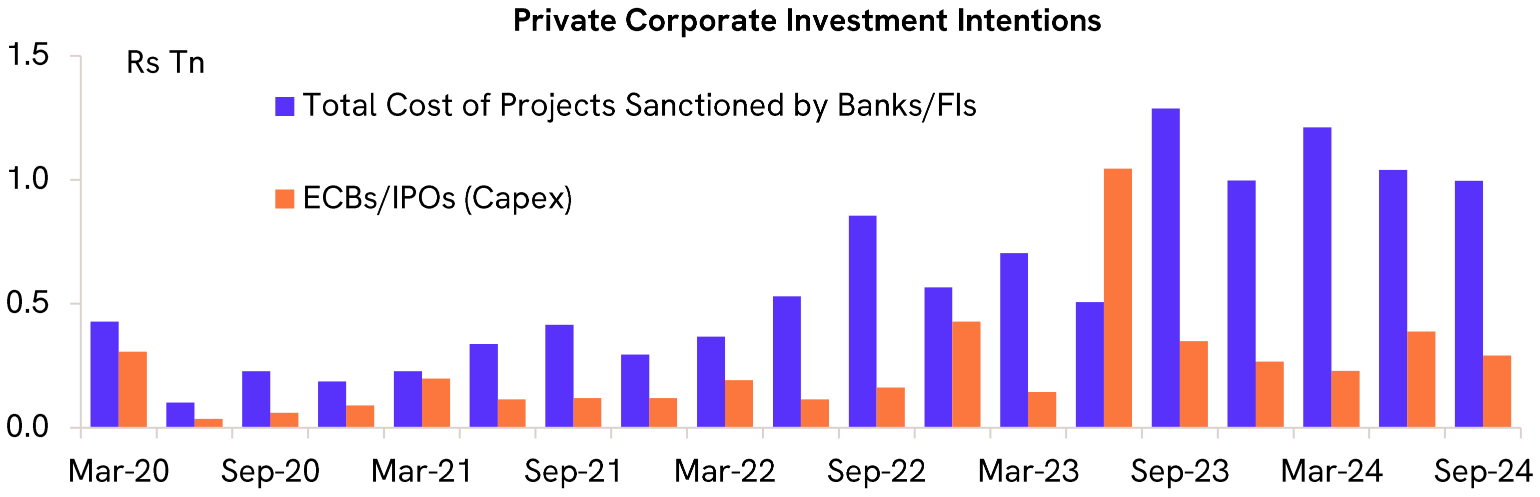
Industrial order flow remains resilient despite weak central govt. ordering

Private corporate investment intentions also reflect a positive outlook for investment spending



Central government ordering remained muted in H1FY25

In H1, order awards declined by only 7% YoY, whereas during the previous two elections (FY15/FY20), orders had fallen by 20–25% in H1



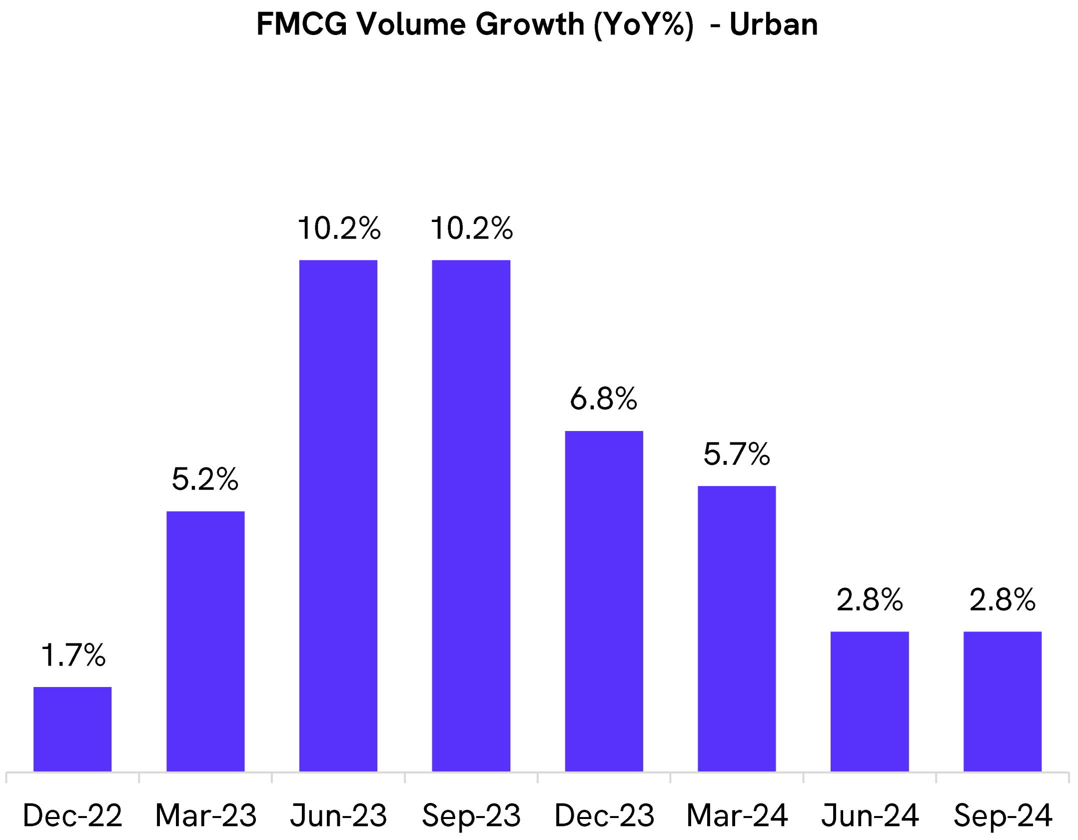
Private corporate investment intentions remain strong, although the pace of growth has slowed

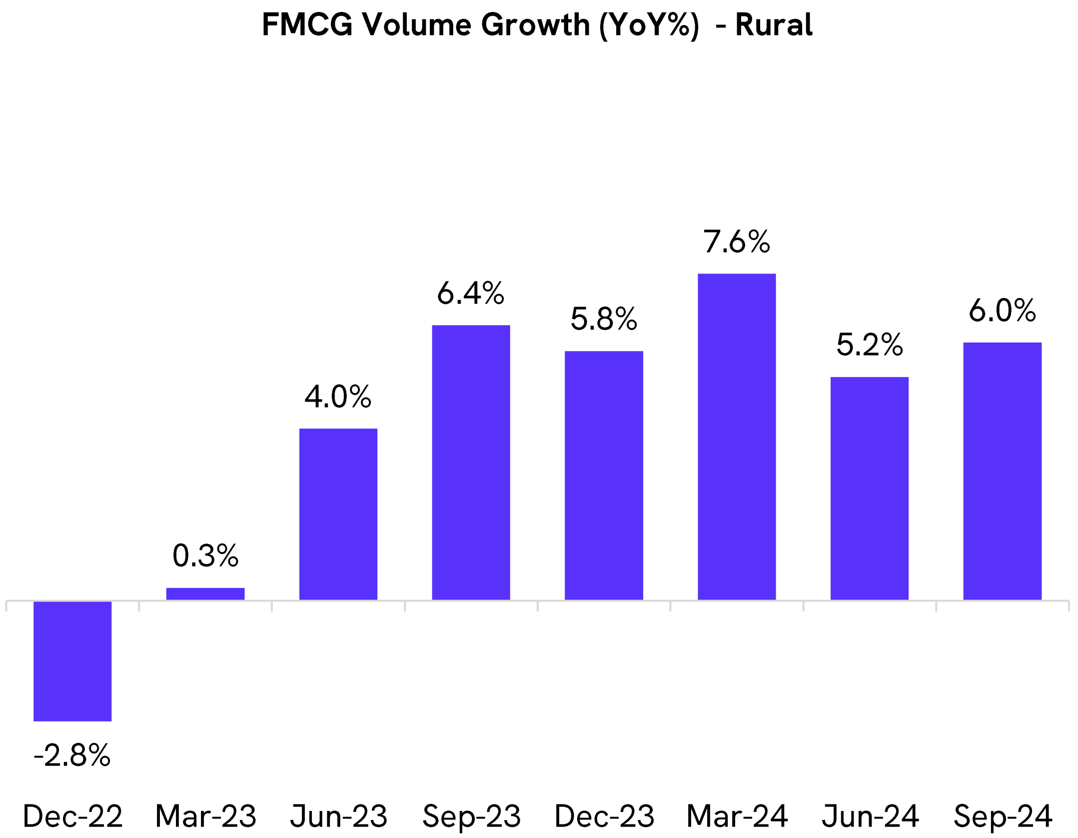
Source: RBI, Investec, 360 ONE Asset Research

Note: Data on private corporate investment intentions is approximate

Urban FMCG volume growth remained weak in the September quarter

The rural sector posted stronger growth in FMCG volumes for the third consecutive quarter

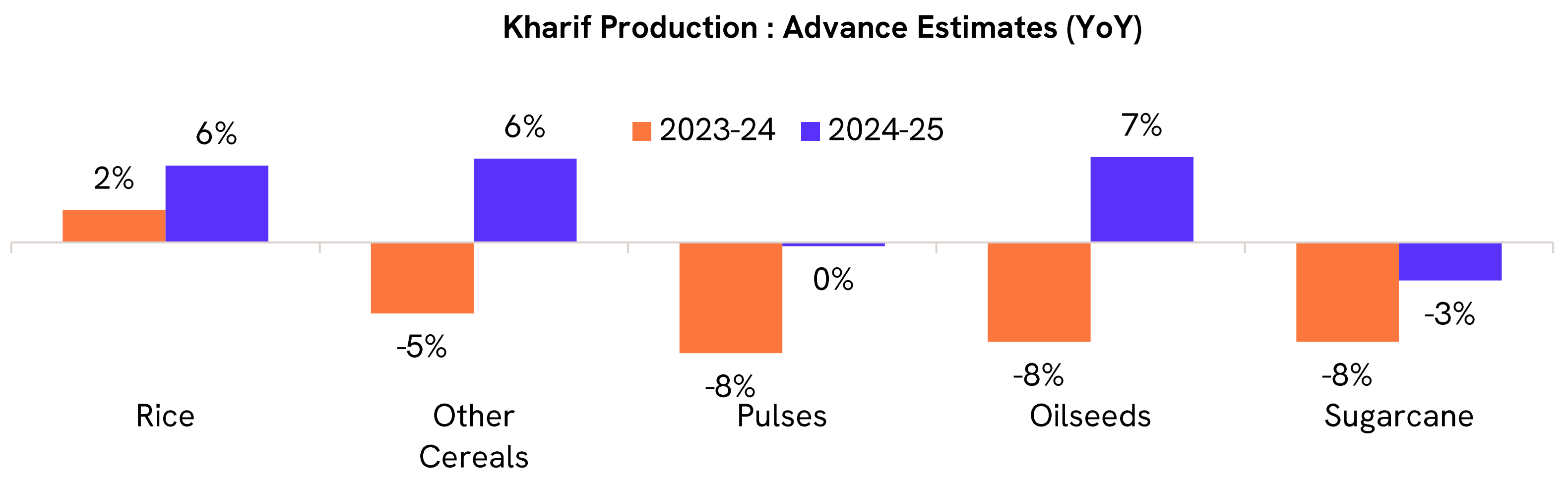


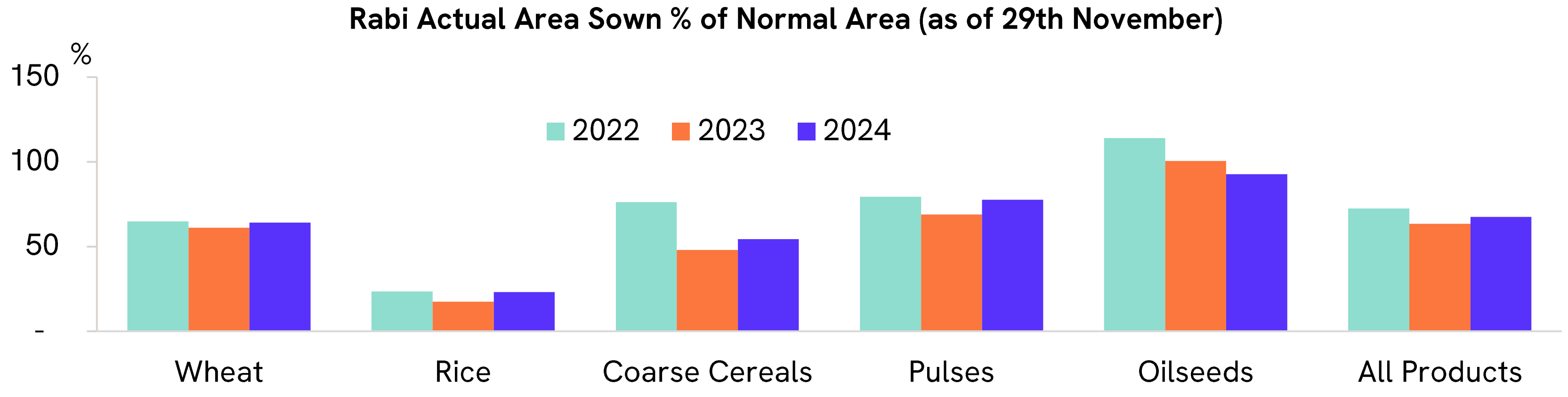


Source: NielsenIQ, News Reports, 360 ONE Asset Research

The outlook for farm income and rural demand remains positive

Record kharif production and encouraging rabi prospects should further support rural consumption





Kharif production is expected to witness healthy growth, according to advance estimates

Last year's production was poor due to a weak monsoon season

In 2024, we had an above-normal monsoon with a fairly even distribution

In the July 2024 issue of Panorama, we highlighted that the rural sector is showing clear signs of recovery and is set to receive a further boost from a normal monsoon

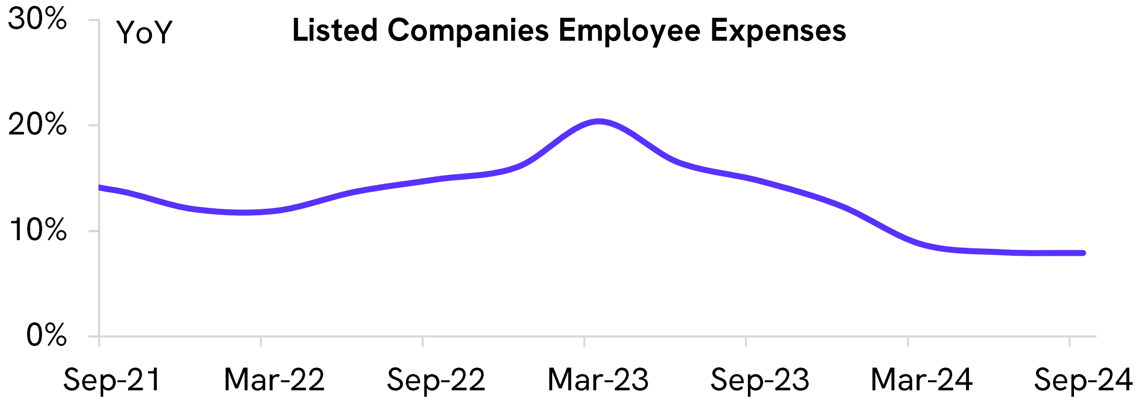
Prospects for the rabi season are also encouraging due to adequate soil moisture and healthy reservoir levels

Source: CMIE, 360 ONE Asset Research

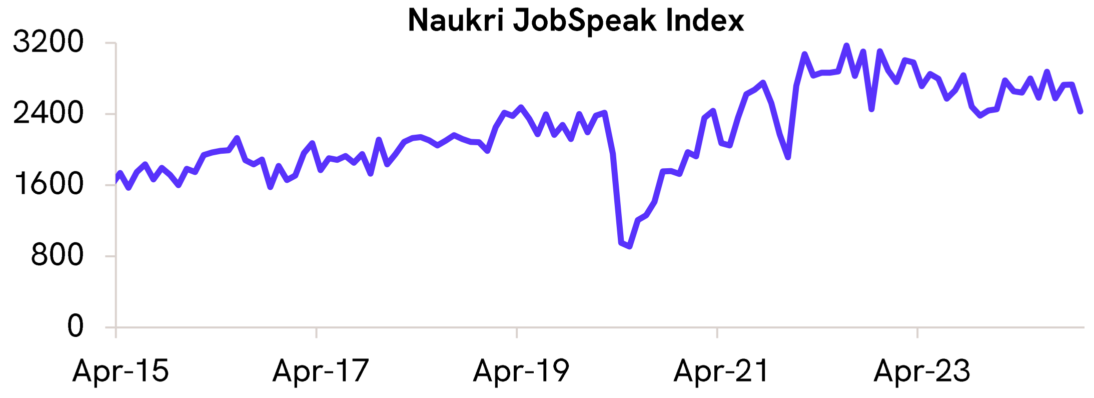
Weak employment generation hinders urban consumption

Some green shoots in hiring activity are visible, suggesting a potential improvement in urban consumption

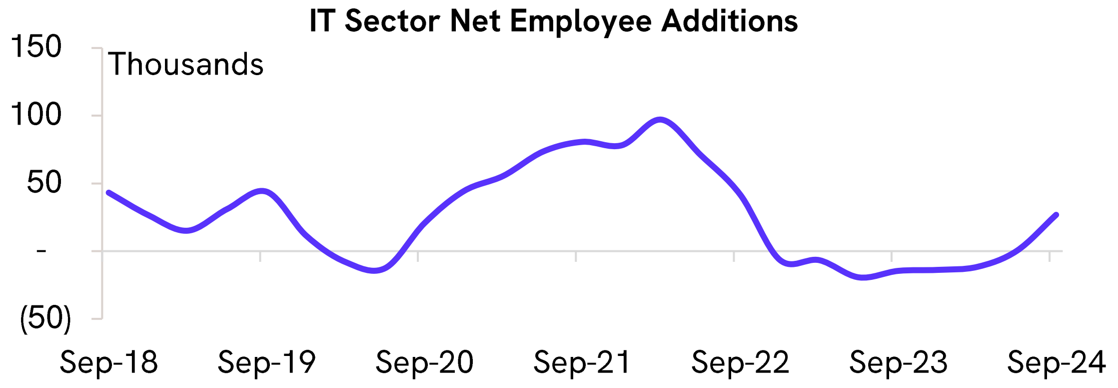
Employee expenses growth remains subdued



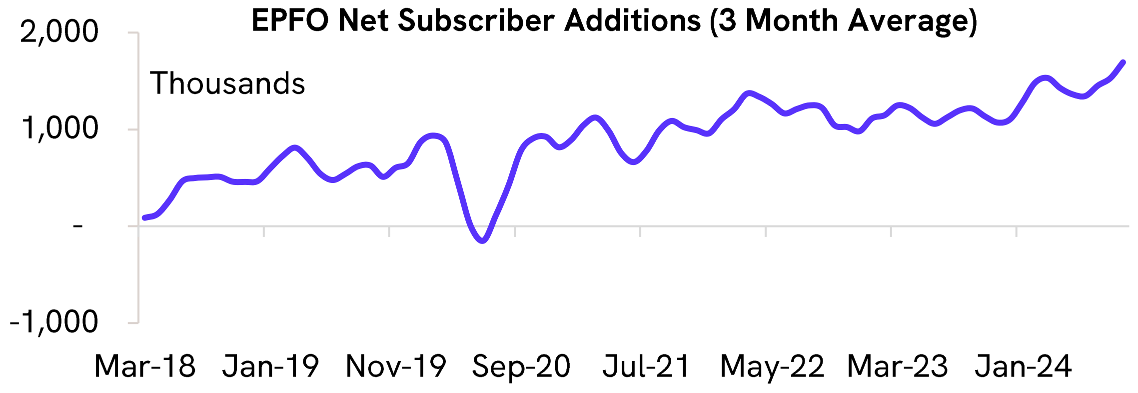
The hiring activity index shows no improvement



IT sector workforce increases for the second consecutive quarter



The pace of EPFO subscriber addition picks up

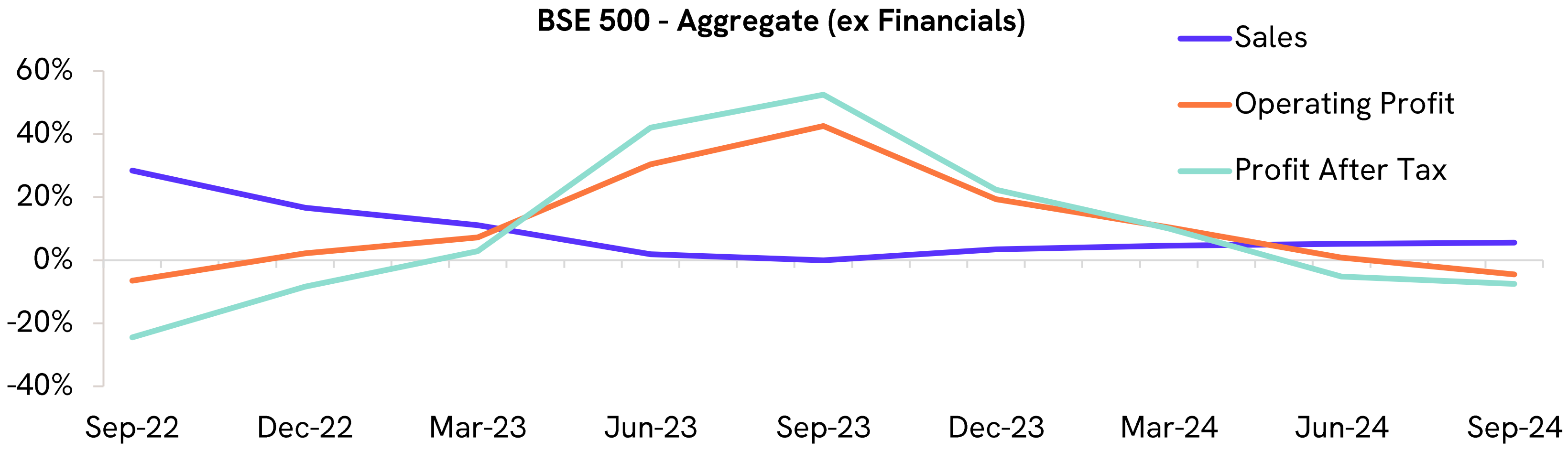


Source: Avendus Spark, Ace Equity, CMIE, 360 ONE Asset Research

Note: Listed companies employee expenses based on a sample of 3430 companies

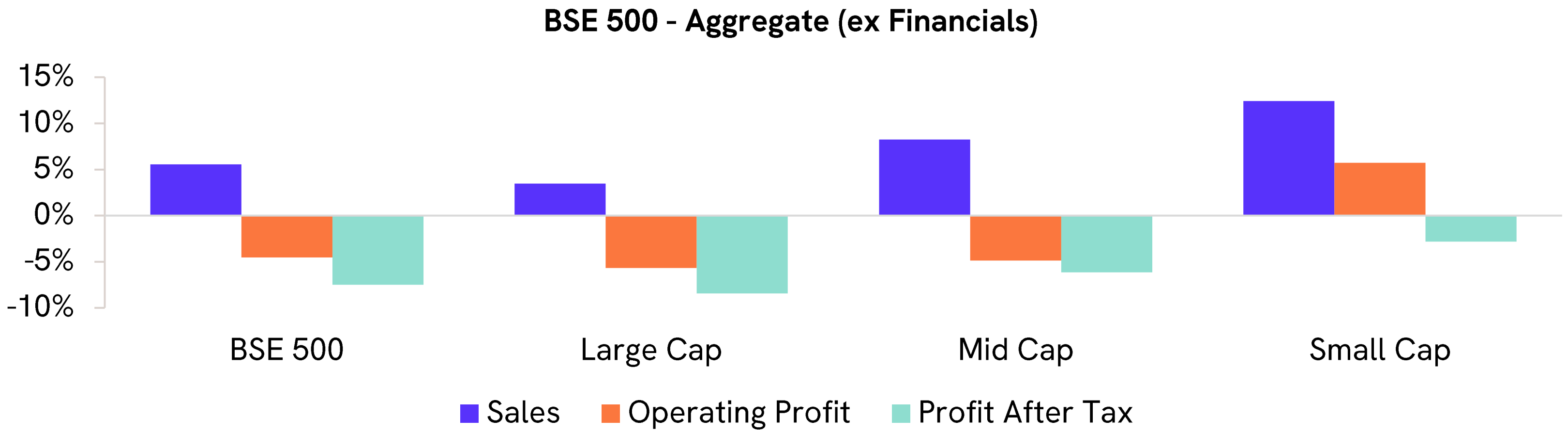
Weak economic growth reflected in Q2FY25 financial results

A broad-based contraction in profits is visible across market caps; large-caps appear to have performed worse



BSE500 companies (excluding financials) reported flat sales growth on an aggregate basis

However, operating profit (EBITDA) and profit growth declined due to a fall in margins

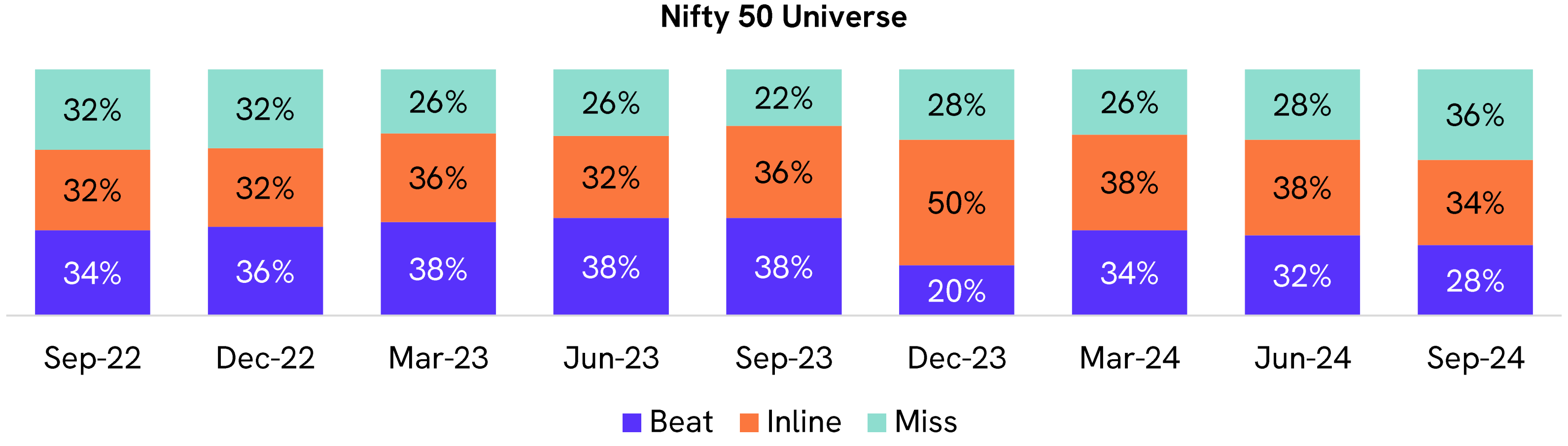


Slowdown in earnings growth was witnessed across market cap categories, with large caps reporting the weakest results

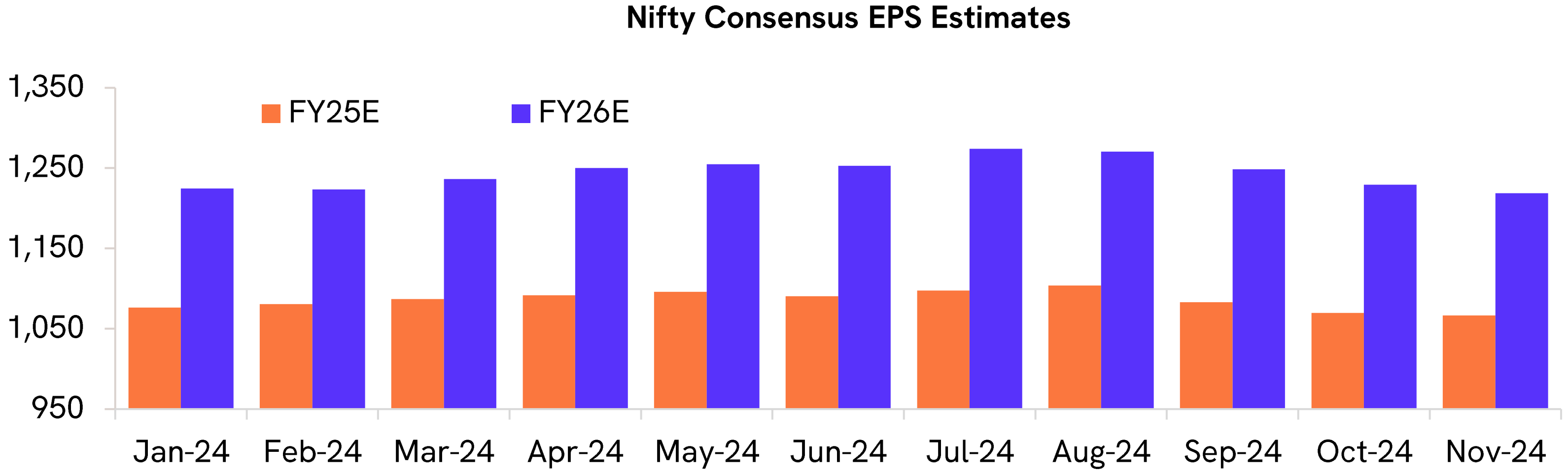
Source: Ace Equity, 360 ONE Asset Research

Earnings misses outpaced beats in Q2FY25

EPS estimates are being revised lower as companies report weaker than expected results



Misses outpaced beats, as 36% of Nifty 50 companies fell short of earnings consensus estimates, while 28% exceeded them in Q2FY25 corporate results



Analysts have lowered EPS estimates for FY25 and FY26 as companies report weaker-than-expected results

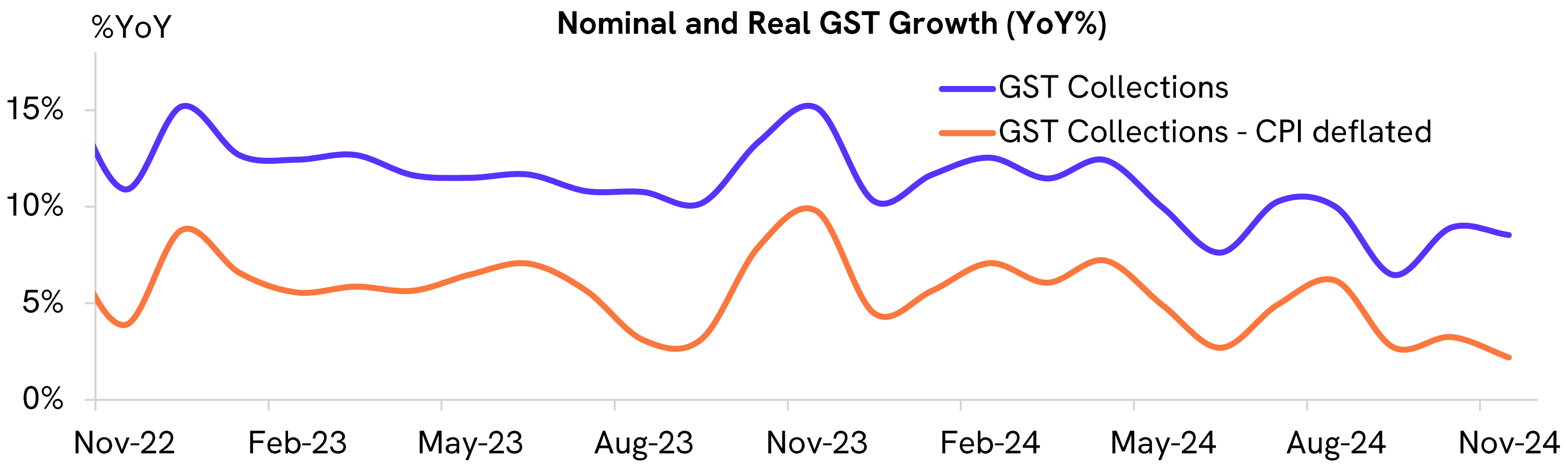
Following the revisions, FY25 Nifty50 earnings growth has declined from ~12% in Sep '24 to 8% in Nov '24

Source: Avendus Spark, Bloomberg, 360 ONE Asset Research

Note: Percentages may not add up to 100% because misses/beats could not be calculated for some companies; Beat/Miss – Actuals greater/lesser than estimates by 5%

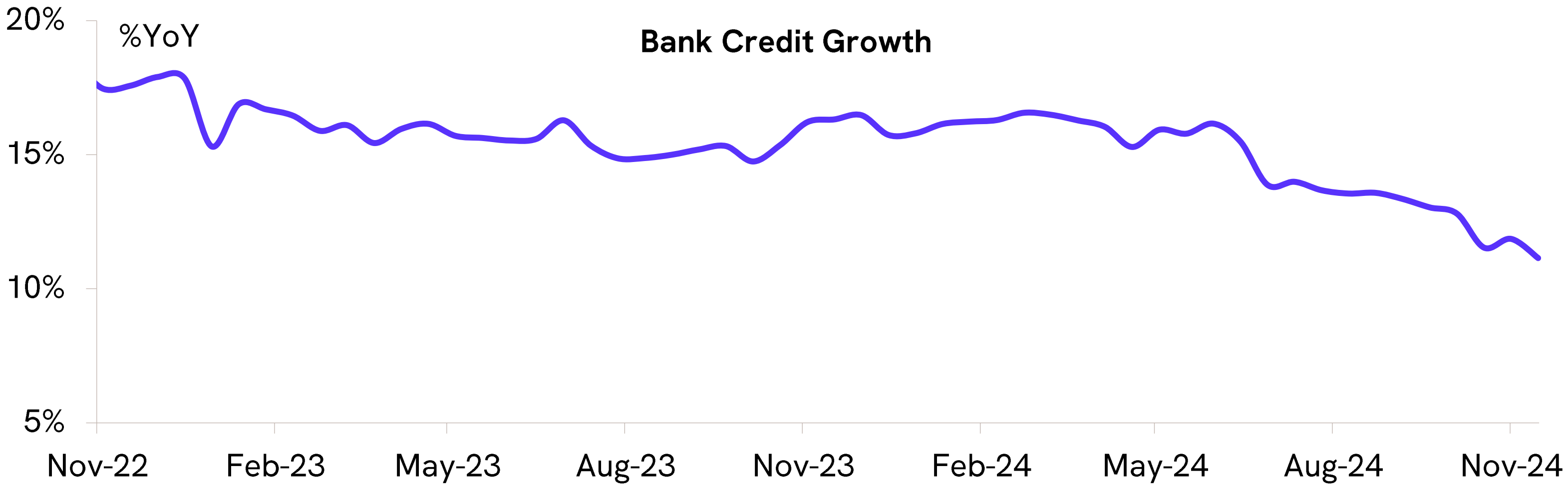
Economic data released so far in Q3 has not been encouraging

GST collections and credit growth continue to moderate in October-November 2024



GST recorded 2-3% YoY growth in real terms during October-November'24

GST collection growth has steadily moderated over the past year



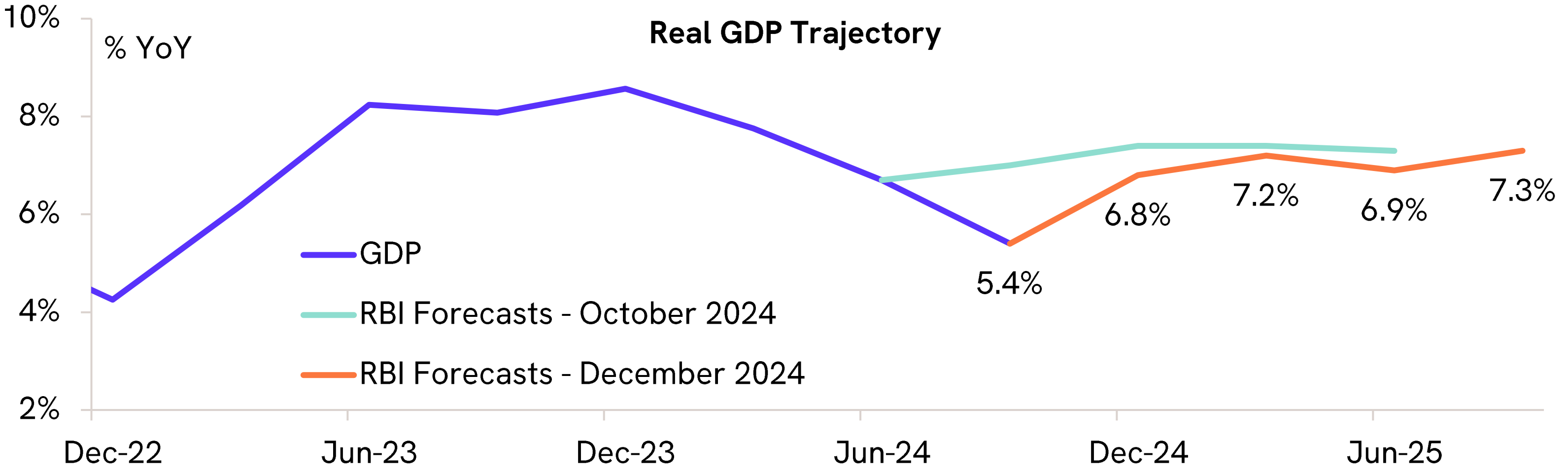
Credit growth moderated from 16% YoY in May 2024 to 13% YoY in September 2024

Credit growth has further moderated to 11% YoY in November 2024

Source: CMIE, RBI, 360 ONE Asset Research

FY25 GDP may undershoot the RBI's latest projection of 6.6% YoY

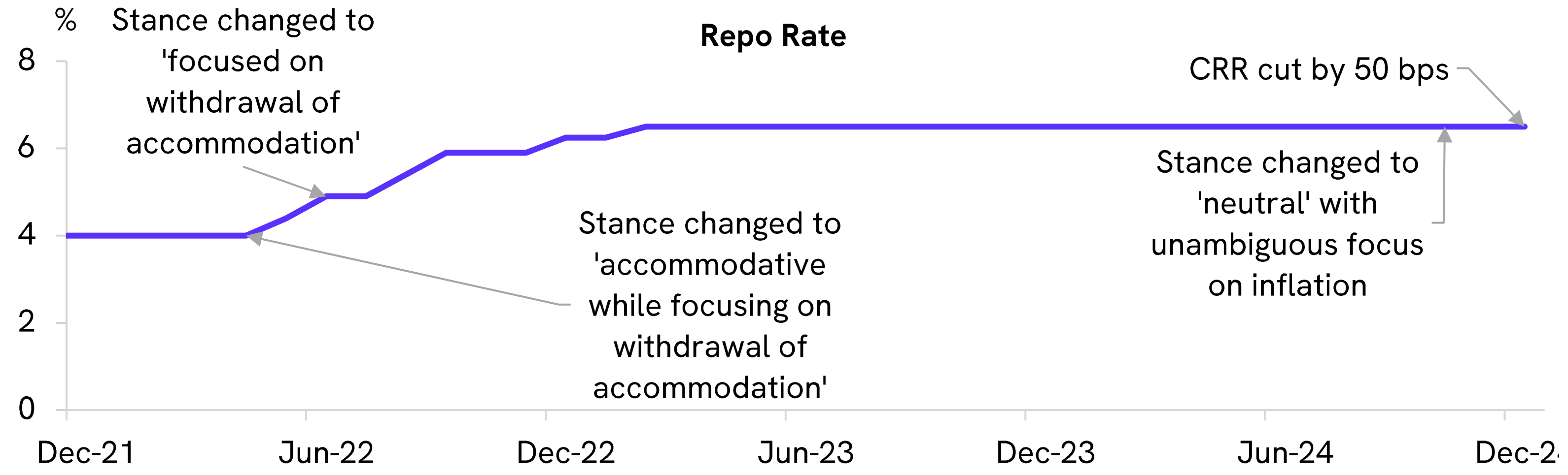
We expect the RBI to initiate the rate cut cycle from the February 2025 policy as growth undershoots expectations



The RBI revised the FY25 GDP forecast lower to 6.6% YoY from 7.2% earlier

The Governor's monetary policy address conveyed optimism regarding the recovery in economic growth

However, we project FY25 GDP growth at 6.3-6.5% YoY, lower than the RBI's projection



We expect the RBI to cut the repo rate by 25 bps in the February 2025 policy, as the inflation outlook is expected to improve while growth conditions may remain weak

Source: RBI, MOSPI, 360 ONE Asset Research

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