GROSS DOMESTIC PRODUCT

GDP and GVA growth eased to three-quarter low 7.1% and 6.9%, respectively, largely in line with our forecasts

NOVEMBER 2018

Contact:
Aditi Nayar
+91 124 4545 385
aditin@icraindia.com

Medha Sinha
+91 124 4545 399
medha.sinha@icraindia.com

HIGHLIGHTS

- ***Growth of India's GDP (at constant 2011-12 prices) in year-on-year (YoY) terms eased to a three-quarter low 7.1% in Q2 FY2019 from 8.2% in Q1 FY2019, while improving relative to the 6.3% recorded in Q2 FY2018. The decline in GDP growth in Q2 FY2019 relative to the previous quarter was driven by a moderation in private final consumption expenditure (PFCE; to +7.0% from +8.6%), whereas the growth of government final consumption expenditure (GFCE; to +12.7% from +7.6%) and gross fixed capital formation (GFCF; to +12.5% from +10.0%) recorded an improvement.***
- ***Moreover, the growth of GVA at basic prices declined to a three-quarter low 6.9% in Q2 FY2019 from 8.0% in Q1 FY2019, while exceeding the 6.1% print for Q2 FY2018. The sequential dip in growth in Q2 FY2019 relative to Q1 FY2019 was led by industry (to +6.8% from +10.3%) and agriculture (to +3.8% from +5.3%), while the pace of growth of services rose mildly (to +7.5% from +7.3%).***
- ***As expected, the slowdown in GVA growth in Q2 FY2019 relative to the previous quarter was largely driven by manufacturing (to +7.4% from +13.5%) and agriculture (to +3.8% from +5.3%). The sharp slowdown in GVA growth of manufacturing in Q2 FY2019 relative to the previous quarter, is in line with the quarter-on-quarter (QoQ) decline in the aggregate EBITDA margins of a wide section of corporates, led by a rise in the input and energy costs and the INR depreciation.***
- ***An uneven and sub-par monsoon, flooding in some areas amid a late withdrawal of the monsoon rains, and instances of crop damage and pest attacks, contributed to the slowdown in agricultural growth in Q2 FY2019 relative to the previous quarter.***
- ***The rise in outlay in activities such as road, railways, affordable housing etc., which has boosted the order books of construction companies in recent months, and the 32.2% expansion in the capital spending of a sample of 20 state governments, are likely to have contributed to the 12.5% GFCF growth in Q2 FY2019, despite the contraction in the capital spending of the Government of India (GoI).***
- ***The sequential slowdown in economic growth in Q2 FY2019 confirms that the expansion in excess of 8% recorded in Q1 FY2019 was an aberration led by base effects. With the GDP and GVA expansion in Q2 FY2019 largely in line with our forecasts of 7.2% and 7.1%, respectively, and given the risks posed by the YoY rise in commodity prices and the depreciation of the INR, as well as the availability and cost of financing for some sectors, we continue to expect a shallow recovery in GDP and GVA growth to 7.2% and 7.1%, respectively, in FY2019 from 6.7% and 6.5%, respectively, in FY2018.***

OVERVIEW

Growth of India's GDP (at constant 2011-12 prices) eased to a three-quarter low 7.1% in Q2 FY2019 from 8.2% in Q1 FY2019, while improving relative to the 6.3% recorded in Q2 FY2018 (refer Exhibit 1 and 2). Similarly, the growth of GVA at basic prices declined to a three-quarter low 6.9% in Q2 FY2019 from 8.0% in Q1 FY2019, while exceeding the 6.1% print for Q2 FY2018. Growth of GDP and GVA in Q2 FY2019 printed largely in line with our forecasts of 7.2% and 7.1%, respectively.

The substantial improvement in GDP growth to 7.1% in Q2 FY2018 from 6.3% in Q2 FY2018 was led by GFCF, GFCE and PFCE, which more than offset the slowdown in growth of inventories, valuables and the drag imposed by net imports. GFCF growth doubled to 12.5% in Q2 FY2019 from 6.1% in Q2 FY2018, in line with the turnaround in capital spending by state governments (to +32.2% from -16.1%). Moreover, GFCE growth rose sharply to 12.7% in Q2 FY2019 from 3.8% in Q2 FY2018. In addition, the growth of PFCE rose modestly to 7.0% in Q2 FY2019 from 6.8% in Q2 FY2018. With the rise in the expansion of imports (to +25.6% from +10.0%) sharply outpacing the uptick in the growth of exports (to +13.4% from +6.8%), net imports exerted a larger drag upon GDP expansion in Q2 FY2019 relative to Q2 FY2018. The shift in production schedules related to a later start to the festive season is likely to have resulted in the easing in the growth of inventories to 3.8% in Q2 FY2019 from 5.8% in Q2 FY2018.

Exhibit 1: Growth of GDP and its Components (in %, Constant 2011-12 Prices, YoY)

	Q2 FY2018	Q3 FY2018	Q4 FY2018	Q1 FY2019	Q2 FY2019	FY2017RE	FY2018PE
Private Final Consumption Exp.	6.8%	5.9%	6.7%	8.6%	7.0%	7.3%	6.6%
Government Final Consumption Exp.	3.8%	6.8%	16.9%	7.6%	12.7%	12.2%	10.9%
Exports	6.8%	6.2%	3.6%	12.7%	13.4%	5.0%	5.6%
less Imports	10.0%	10.5%	10.9%	12.5%	25.6%	4.0%	12.4%
Gross Fixed Capital Formation	6.1%	9.1%	14.4%	10.0%	12.5%	10.1%	7.6%
GDP	**6.3%**	**7.0%**	**7.7%**	**8.2%**	**7.1%**	**7.1%**	**6.7%**
	Q2 FY2018	**Q3 FY2018**	**Q4 FY2018**	**Q1 FY2019**	**Q2 FY2019**	**FY2017RE**	**FY2018PE**
Agriculture, Forestry & Fishing	2.6%	3.1%	4.5%	5.3%	3.8%	**6.3%**	**3.4%**
Industry	6.1%	7.1%	8.8%	10.3%	6.8%	**6.8%**	**5.5%**
Services	6.8%	7.7%	7.7%	7.3%	7.5%	**7.5%**	**7.9%**
GVA at Basic Prices	**6.1%**	**6.6%**	**7.6%**	**8.0%**	**6.9%**	**7.1%**	**6.5%**
GVA ex-Agri	**6.6%**	**7.5%**	**8.1%**	**8.4%**	**7.3%**	**7.2%**	**7.0%**

RE: Revised Estimates: PE: Provisional Estimates Source: Central Statistics Office (CSO); ICRA research

Exhibit 2: YoY Growth in GDP and GVA at Basic Prices (Constant 2011-12 Prices)

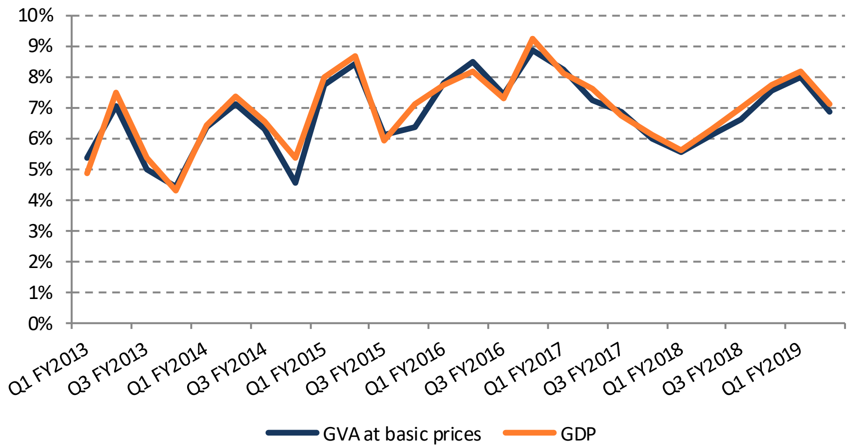
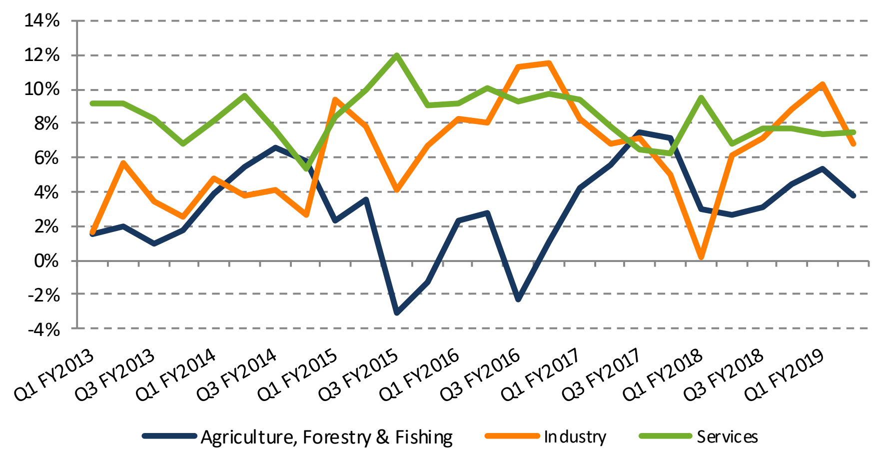


Exhibit 3: YoY Growth in Agriculture, Industry and Services (Constant 2011-12 Prices)



Source: CSO; ICRA research

In sequential terms, the decline in GDP growth in Q2 FY2019 relative to the previous quarter was driven by PFCE (to +7.0% from +8.6). With the increase in the expansion of imports (to +25.6% from +12.5%) sharply outpacing the mild uptick in the growth of exports (to +13.4% from +12.7%), net imports exerted a larger drag upon GDP expansion in Q2 FY2019 relative to Q1 FY2019, as well. However, the growth of GFCE (to +12.7% from +7.6%) and GFCF (to +12.5% from +10.0%) recorded an improvement in Q2 FY2019 relative to the previous quarter.

On a YoY basis, the pace of expansion of GVA at basic prices improved to 6.9% in Q2 FY2019 from 6.1% in Q2 FY2018 (refer *Annexures A, B* and *C*), led by a broad-based improvement in growth of industry (to +6.8% from +6.1%; driven by manufacturing, construction and electricity, gas, water supply and other utility services), services (to +7.5% from +6.8%, led by public administration, defence and other services or PADOS and financial, real estate and professional services or FRP), and agriculture, forestry and fishing (to +3.8% from +2.6%).

In sequential terms, GVA growth eased to 6.9% in Q2 FY2019 from 8.0% in Q1 FY2019, led by industry (to +6.8% from +10.3%; led by manufacturing, construction and mining and quarrying) and agriculture, forestry and fishing (to +3.8% from +5.3%). However, the growth in the services sector rose modestly to 7.5% in Q2 FY2019 from 7.3% in Q1 FY2019, and outpaced the other two sectors. Notably, the growth of GVA excluding agriculture moderated to 7.3% in Q2 FY2019 from 8.4% in Q1 FY2019.

As expected, the decline in industrial growth in Q2 FY2019 relative to the previous quarter was primarily led by manufacturing (to +7.4% from +13.5%). This is in line with the QoQ decline in the aggregate EBITDA margins of a wide section of corporates, led by a rise in the input and energy costs and the INR depreciation. Moreover, the performance of construction (to +7.8% from +8.7%), as well as mining and quarrying (to -2.4% from +0.1%) deteriorated in Q2 FY2019 relative to the previous quarter. The decline in construction GVA was partly led by the waning of the base effect, despite the healthy trend in inputs such as cement. The unexpected 2.4% YoY contraction in GVA of mining and quarrying, which stood in contrast to the mild volume growth of mining revealed by the Index of Industrial Production (IIP), resulted in our forecast of GVA growth for Q2 FY2019 of 7.1%, being somewhat higher than the actual print of 6.9%. However, the performance of electricity, gas and water supply improved to 9.2% in Q2 FY2019 from 7.3% in Q1 FY2019, led by a turnaround in hydroelectricity generation.

An uneven and sub-par monsoon, flooding in some areas amid a late withdrawal of the monsoon rains, and instances of crop damage and pest attacks, contributed to the slowdown in agricultural growth in Q2 FY2019 relative to Q1 FY2019.

The service sector growth rose to 7.5% in Q2 FY2019 from 7.3% in Q1 FY2019, led primarily by PADOS (to +10.9% from +9.9%), and a mild uptick in trade, hotels, transport, communication and services related to broadcasting (THTCS; to +6.8% from +6.7%), partly offset by the slowdown in growth of FRP (to +6.3% from +6.5%).

Exhibit 4: GDP and GVA data

GDP	Q2 FY2018	Q3 FY2018	Q4 FY2018	Q1 FY2019	Q2 FY2019	GVA at Basic Prices	Q2 FY2018	Q3 FY2018	Q4 FY2018	Q1 FY2019	Q2 FY2019
Constant	6.3%	7.0%	7.7%	8.2%	7.1%	Constant	6.1%	6.6%	7.6%	8.0%	6.9%
Current	9.5%	11.0%	10.9%	13.8%	12.0%	Current	9.2%	10.7%	10.7%	12.9%	12.0%
Deflator	3.2%	4.0%	3.1%	5.6%	4.8%	Deflator	3.1%	4.1%	3.1%	4.9%	5.1%

Source: CSO; ICRA research

In nominal terms, GDP growth declined to 12.0% in Q2 FY2019 from 13.8% in Q1 FY2019, while the GVA growth moderated to 12.0% in Q2 FY2019 from 12.9% in Q1 FY2019 (refer Exhibit 4). The GDP deflator eased to 4.8% in Q2 FY2019 from 5.6% in Q1 FY2019, whereas the GVA deflator rose mildly to 5.1% from 4.9%, respectively.

With a 10.0% growth of taxes on products less subsidies on products, GDP expansion (7.1%) exceeded the pace of GVA growth (6.9%) by 23 bps in Q2 FY2019. This was similar to the trend in Q2 FY2018 (19 bps).

Overall, GDP growth improved to 7.6% in H2 FY2019 from 6.0% in H2 FY2018, led by GFCF (to +11.3% from +3.4%) and PFCE (to +7.8% from +6.9%), while GVA growth picked up to 7.4% from 5.8%, respectively, reflecting the rise in industry (to +8.6% from +3.1%) and agriculture (to +4.6% from +2.8%), even as services growth eased (to +7.4% from +8.1%).

OUTLOOK

The deficit in post-monsoon rainfall and lagging rabi sowing remain a concern for the outlook for agricultural growth and rural sentiment. At present, ICRA expects agriculture, forestry and fishing to grow by 3.0-3.25% in FY2019. The prevailing disinflation in food prices has cast concerns on the sustainability of the strength of rural demand in the near term. Whether market prices rise closer to the revised minimum support prices (MSPs) for various crops would crucially affect rural sentiment and demand going forward. Commentary by various corporates related to their Q2 FY2019 earnings suggests that urban sentiment is mixed. While the staggered pay revision by various state governments and the recent GST rate cuts would support urban consumption demand, higher fuel prices on a YoY basis may pose a risk to the purchasing power of consumers to some extent. Moderately healthy consumption demand, as well as the benefits of the implementation of the GST, are expected to support volume growth going forward, which would boost capacity utilisation for the organised sector, and set the stage for a broadening of the investment recovery. Completion of the resolution process of cases admitted to the NCLT would improve utilisation of existing capacity and promote consolidation in some sectors.

The fiscal space for spending by the GoI in FY2019 is contingent on several revenue and expenditure risks, such as the likelihood of meeting the targets for the GST, dividends and profits, and disinvestment, and the adequacy of outlays for revised MSPs, the NHPS, fuel and other subsidies. Additionally, ICRA has observed a trend of expenditure announcements from various state governments over the recent months, which may result in a fiscal slippage, unless revenues exceed the targeted level or there is a cutback in budgeted expenditure. Overall, we expect some cutback in capital spending to offset higher-than-budgeted revenue expenditure, which would support consumption growth at the cost of infrastructure spending in FY2019.

The introduction of the RER(A)D Act and the GST is likely to support a gradual improvement in the sentiments towards real estate sector. However, following the recent stress in the NBFC sector, a slowdown in disbursements to developers and retail borrowers, and rising interest rates have emerged as an evolving risk to the outlook for real estate. The recent stress in the NBFC sector, as well as elevated bond yields, has led to a shift in demand to bank credit, which recorded a YoY expansion of 15.1% as on November 9, 2018. Notwithstanding the Central Bank's recent decision to defer the scheduled increase in capital conservation buffer for FY2019 by one year, most public-sector banks still face capital constraints, which would limit their ability to drive credit growth. Meanwhile, private banks are constrained by their ability to attract incremental deposits, as the deposit franchise of the PSBs largely remains intact. The extent to which access to credit improves for the MSME sector would have an impact on business sentiment and economic growth in FY2019.

With the GDP and GVA expansion in Q2 FY2019 largely in line with our forecasts, and given the risks posed by the YoY rise in commodity prices and the depreciation of the INR, as well as the availability and cost of financing for some sectors, we continue to expect a shallow recovery in GDP and GVA growth to 7.2% and 7.1%, respectively, in FY2019 from 6.7% and 6.5%, respectively, in FY2018.

GVA AT BASIC PRICES

GVA growth stood at 6.9% in Q2 FY2019: Real growth of GVA at basic prices increased to 6.9% in Q2 FY2019 from 6.3% in Q2 FY2018, but was lower than the 8.0% expansion in Q1 FY2019 (refer Exhibit 6). The increase in GVA expansion in Q2 FY2019 relative to Q2 FY2018 was broad-based, led by industry (to +6.8% from +6.1%), agriculture, forestry and fishing (to +3.8% from +2.6%), and services (to +7.5% from +6.8%).

Services sector growth stood at 7.5% in Q2 FY2019: Service sector growth rose to 7.5% in Q2 FY2019 from 6.8% in Q2 FY2018, and 7.3% in Q1 FY2019 (refer Exhibit 7). Moreover, the services sector remained the principal driver of GVA growth, accounting for 4.3% of the 6.9% GVA growth in Q2 FY2019; the contribution of FRP, PADOS, and THTCS to GVA growth stood at 1.7%, 1.4% and 1.3%, respectively.

The YoY growth of THTCS eased to 6.8% in Q2 FY2019 from 8.5% in Q2 FY2018, while rising marginally from 6.7% in Q1 FY2019. One of the key indicators of railways sector, namely, net tonne kilometres and passenger kilometres have recorded a growth of 6.9% and 2.2%, respectively, during Q2 FY2019, as per data released by the CSO. In the transport and communication sectors, cargo handled at major ports posted a growth of 6.4% in Q2 FY2019 (source: CSO), higher than the expansion in Q2 FY2018 (source: Indian Ports Association).

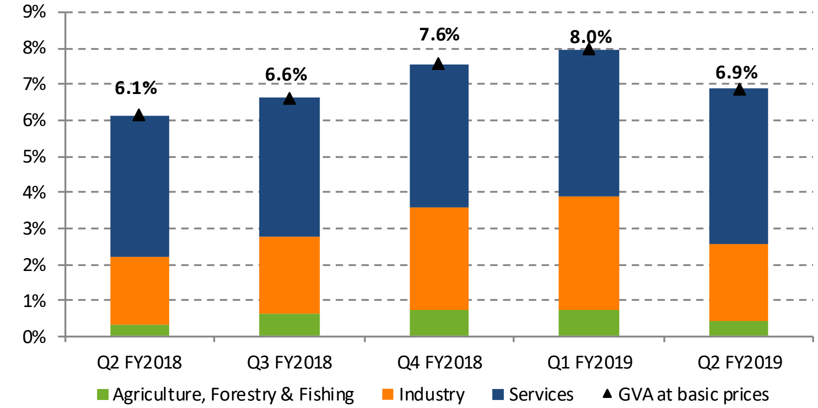
Moreover, the growth of FRP picked up to 6.3% in Q2 FY2019 from 6.1% in Q2 FY2018, but was lower than the 6.5% recorded in Q1 FY2019. This was in line with the sharp uptick in non-food bank credit to 12.6% as on September 28, 2018 from 7.1% in the year-ago period, as per the data from the Reserve Bank of India (RBI).

The growth of PADOS increased to 10.9% in Q2 FY2019 from 6.1% in Q2 FY2018 and 9.9% in Q1 FY2019. This may have been led by increase in the GoI's non-interest revenue expenditure growth to 25.1% in Q2 FY2019 from the muted 0.8% in Q2 FY2019, according to data released by the Controller General of Accounts (CGA).

Industrial growth stood at 6.8% in Q2 FY2019: Industrial growth increased to 6.8% in Q2 FY2019 from 6.1% in Q2 FY2018 but trailed the reading of 10.3% in Q1 FY2019 (refer Exhibit 8). Industry accounted for 2.1% of the 6.9% GVA growth in Q2 FY2019, led by manufacturing (+1.4%), construction (+0.6%) and electricity, gas, water supply and other utility services (+0.2%).

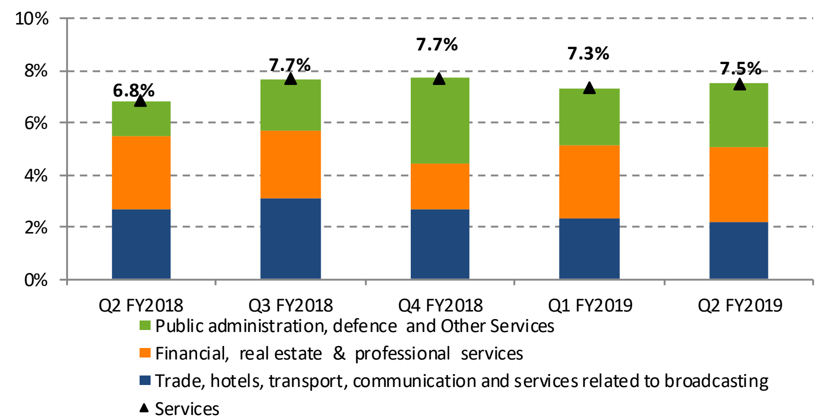
Manufacturing GVA growth improved to 7.4% in Q2 FY2019 from 7.1% in Q2

Exhibit 6: YoY GVA Growth and its Composition (Constant 2011-12 Prices)



Source: CSO; ICRA research

Exhibit 7: YoY Services Growth and its Composition (Constant 2011-12 Prices)



Source: CSO; ICRA research

FY2018. However, growth in manufacturing sector moderated considerably from the healthy 13.5% expansion recorded in Q1 FY2019. While the volume growth in manufacturing sector improved in Q2 FY2019 relative to the previous quarter, higher commodity prices, and interest rates, as well as weaker INR dampened the margins of corporates in Q2 FY2019. Overall, manufacturing remained the key driver of industrial growth in Q2 FY2019.

Construction GVA growth improved sharply to 7.8% in Q2 FY2019 from 3.1% in Q2 FY2018, but was lower than the 8.7% expansion in Q1 FY2019. The sequential decline in construction GVA growth was led by the waning of the base effect. Nevertheless, the pace of construction GVA growth was healthy in Q2 FY2019, in line with the trend in its inputs, like cement and steel consumption, and activity in the infrastructure sector including affordable housing. However, real estate and industrial capex is yet to pick up and consumer sentiment is yet to recover appreciably.

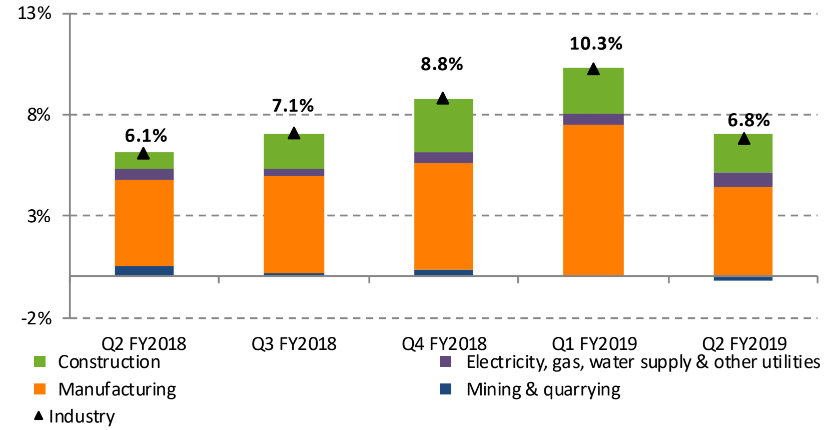
The growth of electricity, gas, water supply and other utility services rose to a seven-quarter high 9.2% in Q2 FY2019 from 7.7% in Q2 FY2018 and 7.3% in Q1 FY2019. Data released by the CEA indicates a sharp improvement in hydroelectricity generation to an expansion of 14.8% in Q2 FY2019, in contrast to the de-growth of 3.7% in Q2 FY2018. However, the pace of expansion of thermal electricity generation moderated to 2.3% in Q2 FY2019 from 8.4% in Q2 FY2018.

The GVA of mining and quarrying posted a de-growth of 2.4% in Q2 FY2019, in contrast to the expansion of 6.9% and 0.1%, respectively, in Q2 FY2018 and Q1 FY2019. The dip in growth in Q2 FY2019 relative to Q2 FY2018 was led by natural gas (to -2.0% from +5.8%), crude oil (to -4.4 from -0.7%) and coal (to +6.2% from +8.5%).

Agricultural growth stood at 3.8% in Q2 FY2019: Growth in agriculture, forestry and fishing improved to 3.8% in Q2 FY2019 from 2.6% in Q2 FY2018, but was considerably lower than the 5.3% expansion in Q1 FY2019. Agriculture, forestry and fishing accounted for a muted 0.4% of the 6.9% GVA growth in Q2 FY2019.

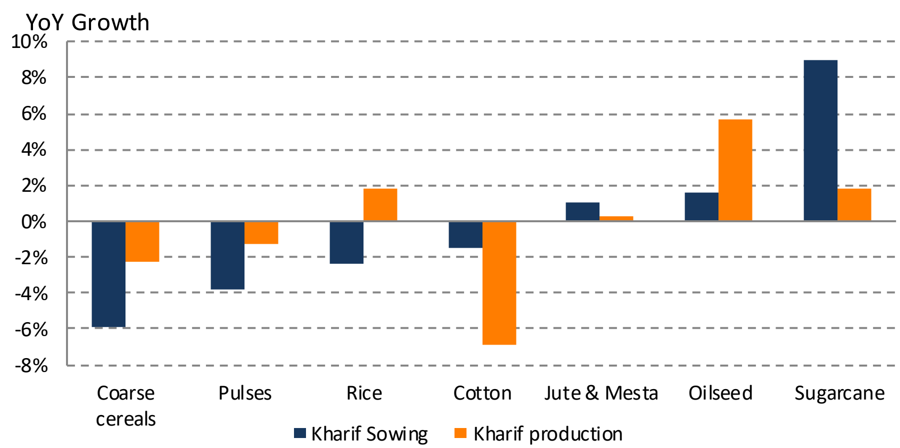
The 1st Advance Estimates (AE) of crop production, released in September 2018, indicated a mixed trend in the production of kharif crops. The kharif output is estimated to decline in FY2019 relative to the previous year for pulses (-1.3%), coarse cereals (-2.2%), and cotton (-6.9%) in FY2019, as per the 1st AE (refer Exhibit 9). However, the same was estimated to record a YoY rise in oilseeds (+5.7%), sugarcane (+1.9%) and rice (+1.8%).

Exhibit 8: YoY Industrial Growth and its Composition (Constant 2011-12 Prices)



Source: CSO; ICRA research

Exhibit 9: YoY Growth in Kharif Sowing and Production according to 1st AE FY2019



Source: Ministry of Agriculture, GoI; ICRA research

EXPENDITURE ON GDP

GDP growth stood at 7.1% in Q2 FY2019: The YoY growth of GDP (at constant 2011-12 prices) rose to 7.1% in Q2 FY2019 from 6.3% in Q2 FY2018 but lagged the nine-quarter high expansion of 8.2% in Q1 FY2019.

PFCE growth stood at 7.0% in Q2 FY2019: The pace of expansion of PFCE rose to 7.0% in Q2 FY2019 from 6.8% in Q2 FY2018, while recording a slowdown from 8.6% in Q1 FY2019 (refer Exhibit 10).

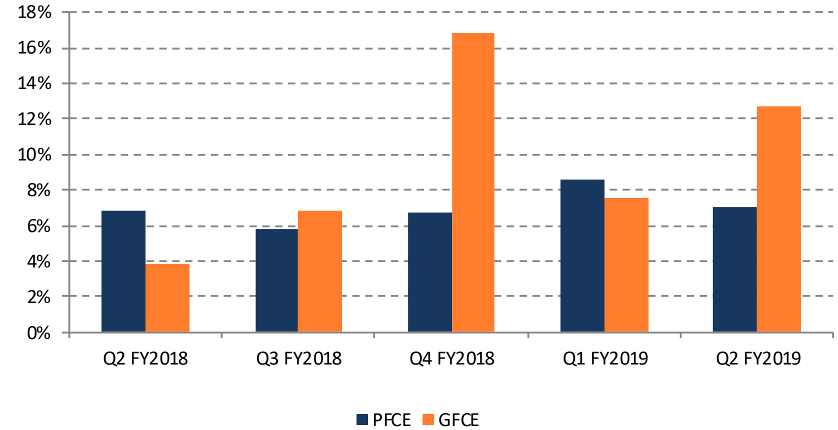
PFCE was one of the key drivers of GDP growth, accounting for a substantial 3.8% of the 7.1% GDP growth in Q2 FY2019, in line with the contribution of GFCF, but higher than the same for GFCE. However, PFCE as a percentage of GDP (at current prices) stood at 57.8% in Q2 FY2019, lower than Q2 FY2018 (58.0%) and Q1 FY2019 (58.4%).

GFCE growth rose in Q2 FY2019: The pace of growth of GFCE stood at 12.7% in Q2 FY2019, higher than the prints of 3.8% and 7.6%, respectively, in Q2 FY2018 and Q1 FY2019. GFCE accounted for a modest 1.5% of the 7.1% GDP growth in Q2 FY2019. GFCE as a percentage of GDP (at current prices) stood at 13.1% in Q2 FY2019, higher than the contribution of 12.5%, each in Q2 FY2018 and in Q1 FY2019.

GFCF expanded by 12.5% in Q2 FY2019: GFCF growth rose to 12.5% in Q2 FY2019 from 6.1% in Q2 FY2018 and 10.0% in Q1 FY2019 (refer Exhibit 11). This is likely to have benefitted from the sharp 32.2% growth in Q2 FY2019 in the capital spending of a sample of 20 state governments (Bihar, Chhattisgarh, Gujarat, Haryana, HP, Jharkhand, Karnataka, Kerala, MP, Maharashtra, Nagaland, Odisha, Punjab, Rajasthan, Sikkim, TN, Telangana, UP, Uttarakhand and WB). Moreover, the value of new and revived projects rose on a YoY basis to Rs. 1.8 trillion and Rs. 0.5 trillion, respectively, in Q2 FY2019 from Rs. 1.4 trillion and Rs. 0.3 trillion, respectively, in Q2 FY2018 (refer Exhibit 8; source: www. economicoutlook.cmie.com, Centre for Monitoring Indian Economy, November 16, 2018). The value of stalled projects also eased to Rs. 0.4 trillion in Q2 FY2019 from Rs. 0.7 trillion in Q2 FY2018. However, the GoI's capital spending contracted by 3.1% in Q2 FY2019. Further, other indicators of investment activity displayed some deterioration, such as a decline in the value of completed projects to Rs. 1.0 trillion in Q2 FY2019 from Rs. 1.3 trillion in Q2 FY2018. Overall, the pickup in the investment cycle remains restricted to certain sectors, in our view.

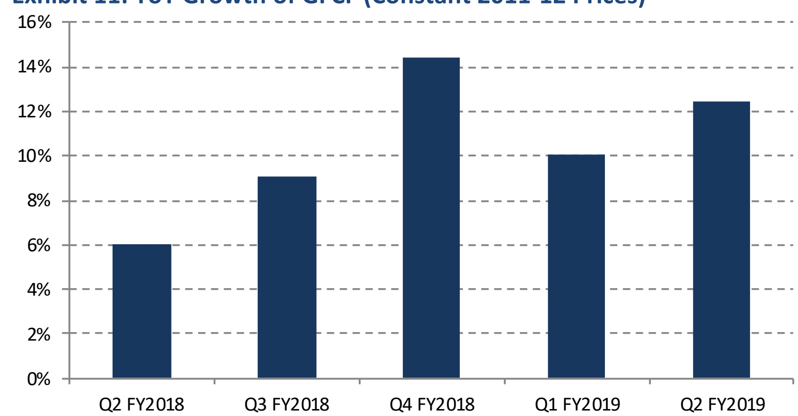
GFCF accounted for a considerable 3.8% of the 7.1% GDP growth in Q2 FY2019. Notably, GFCF as a percentage of GDP (at current prices) stood at 29.2% in Q2 FY2019, higher than Q2 FY2018 (27.9%) and in Q1 FY2019 (28.8%).

Exhibit 10: YoY Growth of PFCE and GFCE (Constant 2011-12 Prices)



Source: CSO; ICRA research

Exhibit 11: YoY Growth of GFCF (Constant 2011-12 Prices)



Source: CSO; ICRA research

Valuables recorded an expansion of 23.3% in Q2 FY2019 (constant 2011-12 prices), lower than the same for Q2 FY2018 (+54.4%), but higher than Q1 FY2019 (-8.0%). However, at current prices, valuables displayed a de-growth of 12.4% in Q2 FY2019, in contrast to the sharp 61.2% expansion in the value of gold imports in that quarter (source: Ministry of Commerce). Valuables as a percentage of GDP (at current prices) stood at 1.2% in Q2 FY2019, lower than in Q2 FY2018 (1.5%) and Q1 FY2019 (1.6%).

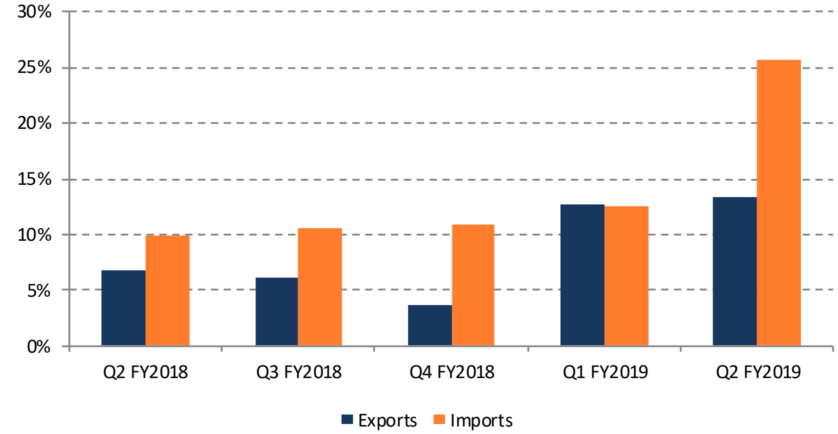
The pace of growth of inventories eased to 3.8% in Q2 FY2019 relative to the prints for Q2 FY2018 (+5.8%) and Q1 FY2019 (+8.6%). The shift in production schedules related to a later start to the festive season is likely to have resulted in the easing in the growth of inventories in Q2 FY2019 relative to Q2 FY2018. Inventories as a percentage of GDP (at current prices) stood at a mild 0.6% in Q2 FY2019, similar to the print in Q2 FY2018 (0.7%) and Q1 FY2019 (0.6%).

Net exports exerted a drag on GDP expansion in Q2 FY2019: At constant prices, growth of exports posted an uptick to 13.4% in Q2 FY2019 from 6.8% in Q2 FY2018 and 12.7% in Q1 FY2019 (refer Exhibit 12). Moreover, the growth in imports rose sharply to 25.6% in Q2 FY2019 from 10.0% in Q2 FY2018 and 12.5% in Q1 FY2019. As a result, net exports exerted a drag of 3.0% on the GDP growth in Q2 FY2019.

At current prices, data released by the CSO indicates that exports and imports expanded by 18.3% and 30.6%, respectively, in Q2 FY2019. However, the data released by the RBI, indicates a lower expansion of 10.2% and 21.0%, respectively, in merchandise exports and imports in Q2 FY2019, in US$ terms. Notably, services exports and imports (in US$ terms) recorded a robust rise of 24.3% and 27.4%, respectively, in Q2 FY2019.

Discrepancies rose on a YoY basis: Discrepancies refer to the residual that remains after disaggregating GDP into its expenditure components, such as PFCE, GFCE and GFCF. The discrepancies in the GDP data for Q2 FY2019 rose to (+) Rs. 888.8 billion (at 2011-12 prices), from the value of (+) Rs. 724.2 billion in Q2 FY2018. The YoY uptick in discrepancies in Q2 FY2019 suggests that the pace of growth of the components of GDP may undergo a revision when subsequent estimates are released.

Exhibit 12: YoY Growth of Exports and Imports (Constant 2011-12 Prices)



Source: CSO; ICRA research

ANNEXURE A

Exhibit 13: GVA at Basic Prices and its Components (YoY Growth, Constant 2011-12 Prices)

	Q2 FY2018	Q3 FY2018	Q4 FY2018	Q1 FY2019	Q2 FY2019	FY2017 RE	FY2018 PE
GVA at Basic Prices	**6.1%**	**6.6%**	**7.6%**	**8.0%**	**6.9%**	**7.1%**	**6.5%**
Agriculture, Forestry & Fishing	2.6%	3.1%	4.5%	5.3%	3.8%	***6.3%***	***3.4%***
Industry	6.1%	7.1%	8.8%	10.3%	6.8%	***6.8%***	***5.5%***
Mining & Quarrying	*6.9%*	*1.4%*	*2.7%*	*0.1%*	*-2.4%*	13.0%	2.9%
Manufacturing	*7.1%*	*8.5%*	*9.1%*	*13.5%*	*7.4%*	7.9%	5.7%
Electricity, gas, water supply & other utilities	*7.7%*	*6.1%*	*7.7%*	*7.3%*	*9.2%*	9.2%	7.2%
Construction	*3.1%*	*6.6%*	*11.5%*	*8.7%*	*7.8%*	1.3%	5.7%
Services	*6.8%*	*7.7%*	*7.7%*	*7.3%*	*7.5%*	***7.5%***	***7.9%***
Trade, Hotels, Transport, Communication & Services related to Broadcasting	*8.5%*	*8.5%*	*6.8%*	*6.7%*	*6.8%*	7.2%	8.0%
Financial, Real Estate & Professional Services	*6.1%*	*6.9%*	*5.0%*	*6.5%*	*6.3%*	6.0%	6.6%
Public Administration, Defence and Other Services	*6.1%*	*7.7%*	*13.3%*	*9.9%*	*10.9%*	10.7%	10.0%

Source: CSO; ICRA research

Exhibit 14: GDP and Final Expenditures (YoY Growth, Constant 2011-12 Prices)

	Q2 FY2018	Q3 FY2018	Q4 FY2018	Q1 FY2019	Q2 FY2019	FY2017 RE	FY2018 PE
GDP	**6.3%**	**7.0%**	**7.7%**	**8.2%**	**7.1%**	**7.1%**	**6.7%**
PFCE	6.8%	5.9%	6.7%	8.6%	7.0%	7.3%	6.6%
GFCE	3.8%	6.8%	16.9%	7.6%	12.7%	12.2%	10.9%
Exports	6.8%	6.2%	3.6%	12.7%	13.4%	5.0%	5.6%
less Imports	10.0%	10.5%	10.9%	12.5%	25.6%	*4.0%*	*12.4%*
Gross Capital Formation	8.0%	10.1%	14.9%	8.6%	12.9%	4.7%	9.6%
GFCF	6.1%	9.1%	14.4%	10.0%	12.5%	10.1%	7.6%
Change in Stocks	5.8%	7.2%	7.8%	8.6%	3.8%	-61.2%	4.5%
Valuables	54.2%	37.2%	29.1%	-8.0%	23.3%	-13.9%	58.8%
Discrepancies	15.4%	-55.0%	-21.8%	0.4%	22.7%	7.3%	13.9%

Source: CSO; ICRA research

ANNEXURE B

Exhibit 15: Composition of GVA at Basic Prices (Constant 2011-12 Prices)

	Q2 FY2018	Q3 FY2018	Q4 FY2018	Q1 FY2019	Q2 FY2019	FY2017 RE	FY2018 PE
GVA at Basic Prices	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Agriculture, Forestry & Fishing	***11.3%***	***18.8%***	***15.3%***	***13.3%***	***11.0%***	***15.3%***	***14.8%***
Industry	***30.9%***	***30.5%***	***32.8%***	***31.3%***	***30.9%***	***31.5%***	***31.2%***
Mining & Quarrying	2.6%	3.0%	3.7%	3.2%	2.4%	3.3%	3.2%
Manufacturing	18.5%	17.5%	19.2%	18.0%	18.6%	18.2%	18.1%
Electricity, gas, water supply & other utilities	2.3%	2.1%	2.1%	2.3%	2.3%	2.2%	2.2%
Construction	7.5%	7.9%	7.8%	7.9%	7.6%	7.8%	7.8%
Services	***57.8%***	***50.7%***	***51.9%***	***55.4%***	***58.1%***	***53.2%***	***54.0%***
Trade, Hotels, Transport, Communication & Services related to Broadcasting	18.5%	18.8%	20.6%	18.9%	18.5%	19.0%	19.3%
Financial, Real Estate & Professional Services	26.3%	18.5%	17.9%	24.1%	26.1%	21.7%	21.7%
Public Administration, Defence and Other Services	13.0%	13.3%	13.4%	12.4%	13.5%	12.6%	13.0%

Source: CSO; ICRA research

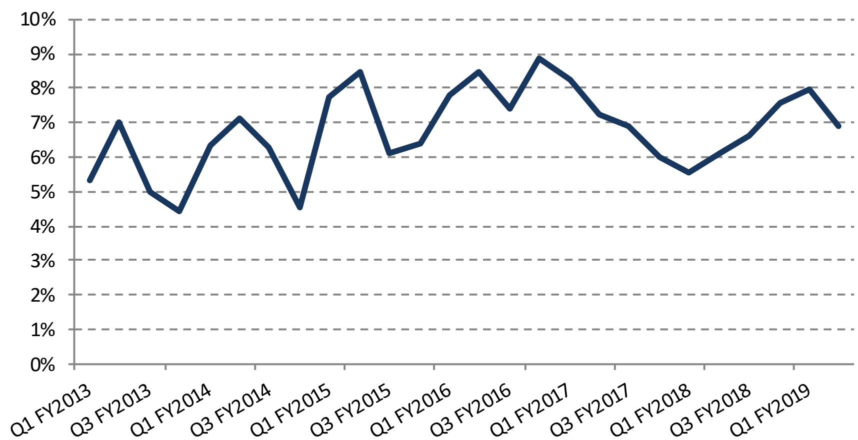
Exhibit 16: Composition of GDP and Final Expenditures (Constant 2011-12 Prices)

	Q2 FY2018	Q3 FY2018	Q4 FY2018	Q1 FY2019	Q2 FY2019	FY2017 RE	FY2018 PE
GDP	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
PFCE	54.5%	59.3%	54.6%	54.9%	54.5%	55.8%	55.9%
GFCE	11.8%	10.0%	9.5%	11.8%	12.4%	9.9%	10.3%
Exports	20.6%	20.2%	19.5%	21.4%	21.8%	20.8%	20.4%
less Imports	22.7%	23.0%	20.9%	24.7%	26.6%	22.1%	21.4%
Gross Capital Formation	33.5%	33.9%	34.6%	34.5%	35.3%	34.0%	33.2%
GFCF	30.8%	31.6%	32.2%	31.6%	32.3%	30.3%	31.1%
Change in Stocks	0.7%	0.7%	0.7%	0.7%	0.7%	2.0%	0.7%
Valuables	1.9%	1.6%	1.7%	2.2%	2.2%	1.6%	1.3%
Discrepancies	2.3%	-0.4%	2.6%	2.2%	2.6%	1.6%	1.6%

Source: CSO; ICRA research

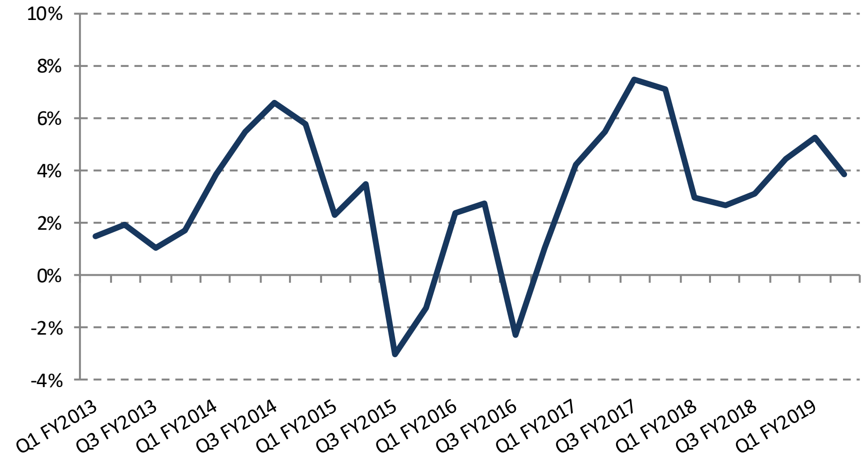
ANNEXURE C

Exhibit 17: Growth in GVA at Basic Prices (Constant 2011-12 Prices)



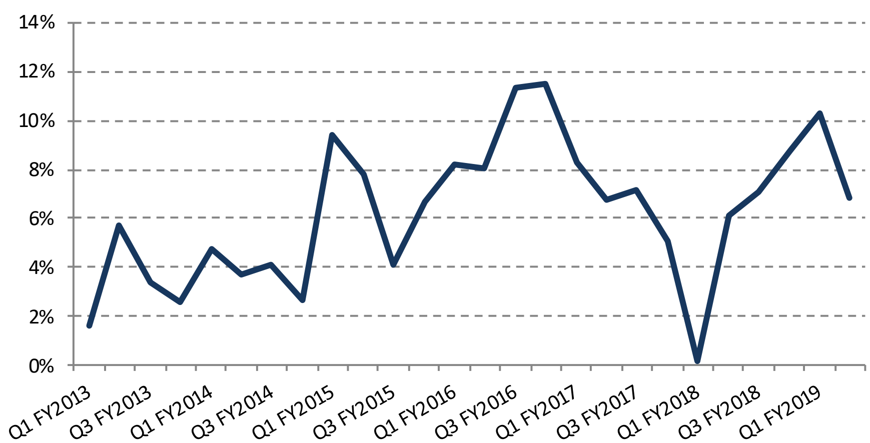
Source: CSO; ICRA research

Exhibit 18: Growth in Agriculture, Forestry & Fishing (Constant 2011-12 Prices)



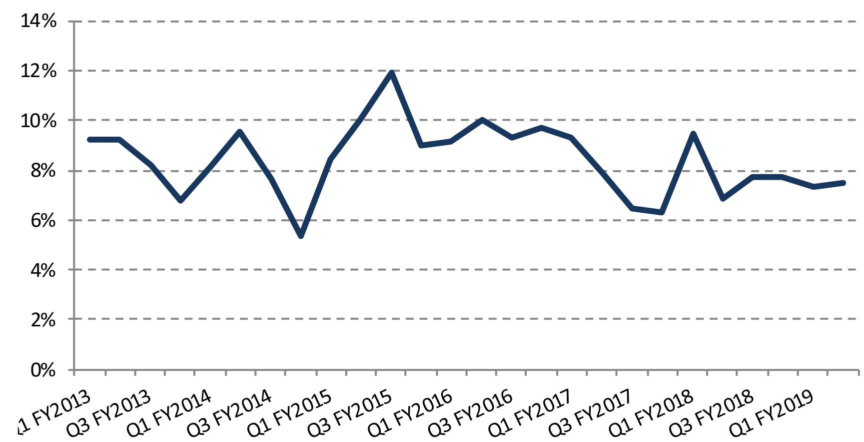
Source: CSO; ICRA research

Exhibit 19: Growth in Industry (Constant 2011-12 Prices)



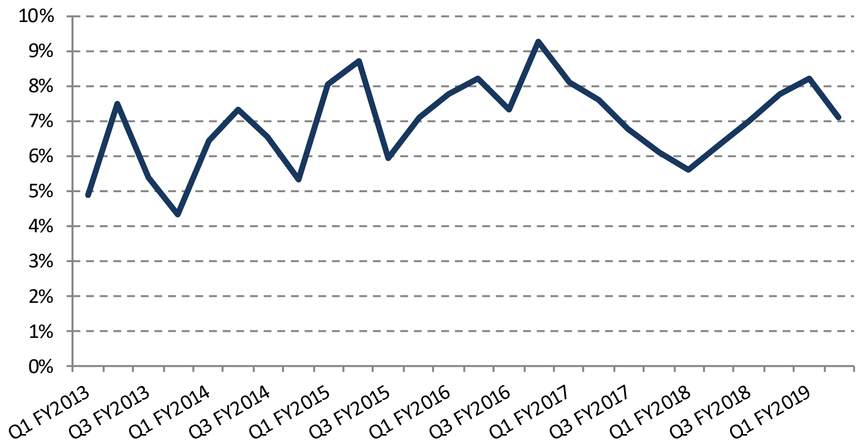
Source: CSO; ICRA research

Exhibit 20: Growth in Services (Constant 2011-12 Prices)



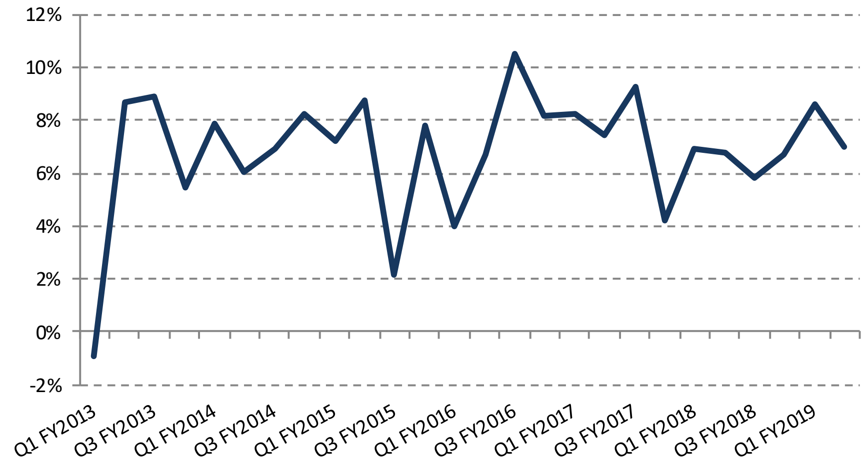
Source: CSO; ICRA research

Exhibit 21: Growth in GDP (Constant 2011-12 Prices)



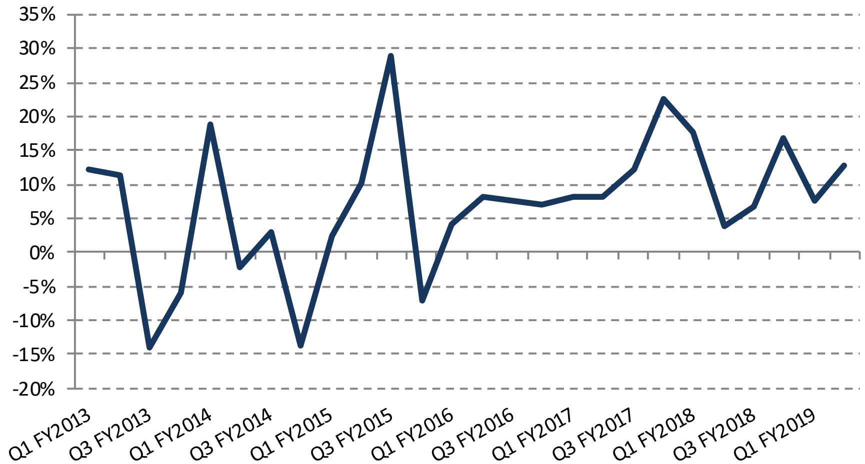
Source: CSO; ICRA research

Exhibit 22: Growth in PFCE (Constant 2011-12 Prices)



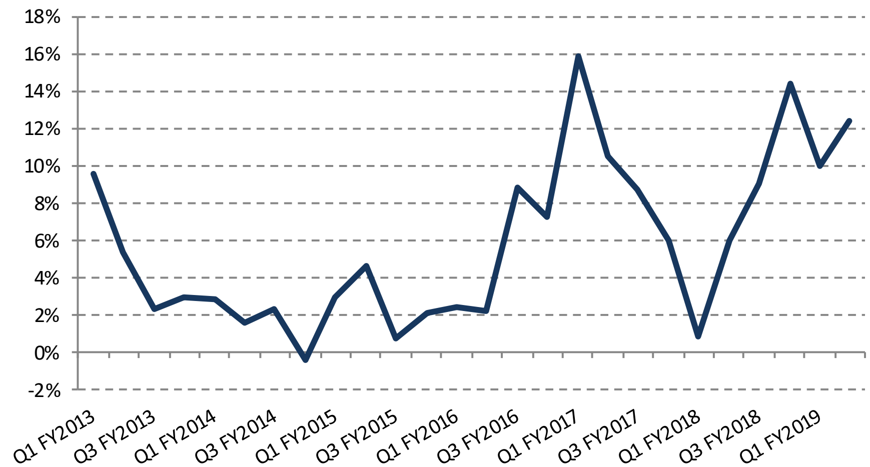
Source: CSO; ICRA research

Exhibit 23: Growth in GFCE (Constant 2011-12 Prices)



Source: CSO; ICRA research

Exhibit 24: Growth in GFCF (Constant 2011-12 Prices)



Source: CSO; ICRA research

Business Contacts

Mr. L. Shivakumar
E-mail: shivakumar@icraindia.com
Tel: +91 22 6114 3406 / +91 98210 86490

Mr. Jayanta Chatterjee
E-mail: jayantac@icraindia.com
Tel: +91 80 4332 6401/ +91 98450 22459

Media and Public Relations

Ms. Naznin Prodhani
E-mail: communications@icraindia.com
Tel: +91 124 4545 860

Branches

Registered Office:

1105, Kailash Building, 11th Floor,
26, Kasturba Gandhi Marg,
New Delhi - 110 001
Tel: + 91 11 2335 7940-45

Corporate Office:

Building No.8, 2nd Floor,
Tower A, DLF Cyber City Phase II,
Gurgaon- 122 002
Tel: +91 124 4545300

Ahmedabad

907 & 908, Sakar – II,
Ellisbridge, Opp. Town Hall,
Ahmedabad - 380 006
Tel: +91 79 4027 1500/01

Bengaluru 1

'The Millenia', Tower- B,
Unit No. 1004, 10th Floor,1 & 2 Murphy Road,
Bengaluru - 560 008
Tel: +91 80 4332 6400

Bengaluru 2

2nd Floor, Vayudooth Chamber,
15-16, Trinity Circle, M.G. Road,
Bengaluru - 560 001
Tel: +91 80 4922 5500

Chennai

5th Floor, Karumuttu Centre,
634, Anna Salai, Nandanam
Chennai - 600 035
Tel: +91 44 4596 4300

Hyderabad 1

No. 7-1-58, 301, 3rd Floor, 'CONCOURSE',
Above SBI-HPS Branch,
Ameerpet,
Hyderabad - 500 016
Tel: +91 40 4920 0200

Hyderabad 2

4A, 4th Floor, SHOBHAN,
6-3-927, A&B Somajiguda,
Raj Bhavan Road,
Hyderabad – 500082
Tel: +91 40 40676500

Kolkata

A-10 & 11, 3rd Floor, FMC Fortuna 234/3A,
A.J.C. Bose Road,
Kolkata -700 020
Tel: +91 33 7150 1100/01

Mumbai

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi,
Mumbai - 400 025
Tel: +91 22 6169 3300

Pune

5A, 5th Floor, Symphony, S. No. 210
CTS 3202 Range Hills Road, Shivajinagar,
Pune - 411 020
Tel: +91 20 2556 1194

Email: info@icraindia.com
Helpdesk: 124 3341580
Website: www.icra.in/ www.icraresearch.in