ICRA
A MOODY'S INVESTORS SERVICE COMPANY

GROSS DOMESTIC PRODUCT

GDP and GVA growth declined further to 4.5% and 4.3%, respectively, in Q2 FY2020

December 2019

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

Soumyaditya Pal
+91 124 4545 848
soumyaditya.pal@icraindia.com

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

HIGHLIGHTS

- *As portended by a number of lead indicators, Indian economic growth slid further in Q2 FY2020. Growth of India's GDP (at constant 2011-12 prices) in year-on-year (YoY) terms fell to a 26-quarter low 4.5% in Q2 FY2020 from 7.0% in Q2 FY2019, and 5.0% in Q1 FY2020. Moreover, the growth in GVA at basic prices declined to a series-low of 4.3% in Q2 FY2020 from 6.9% in Q2 FY2019 and 4.9% in Q1 FY2020. GDP and GVA growth in Q2 FY2020 printed mildly lower than our expectations (+4.7% and +4.5%, respectively).*

- *The sequential slowdown in GDP growth in Q2 FY2020 relative to the previous quarter was driven by a fall in growth of gross fixed capital formation (GFCF) to a 19-quarter low 1.0% from 4.0%, respectively, highlighting the sluggishness in investment activity.*

- *In contrast, there was an uptick in the pace of expansion of government final consumption expenditure (GFCE; to +15.6% from +8.8%), and private final consumption expenditure (PFCE; to +5.1% from +3.1%). Notably, government spending was one of the key drivers of GDP growth in Q2 FY2020. Excluding GFCE, the GDP growth would be considerably lower at 3.1% in Q2 FY2020. The improvement in PFCE growth in sequential quarters is somewhat at odds with the evidence from various sectors regarding subdued consumption sentiment in rural as well as urban areas.*

- *As expected, the dip in growth of GVA at basic prices in Q2 FY2020 relative to the previous quarter was led by industry (to +0.5% from +2.7%). Services and agriculture broadly maintained their growth momentum in Q2 FY2020; while there was a marginal dip in the expansion of services to 6.8% in Q2 FY2020 from 6.9% in the previous quarter, the YoY growth in the GVA of agriculture, forestry and fishing rose mildly to 2.1% from 2.0%, respectively.*

- *Industrial GVA growth recorded a broad-based deceleration to a marginal 0.5% in Q2 FY2020 from 2.7% in Q1 FY2020. In particular, the manufacturing sector contracted by 1.0% in Q2 FY2020 in contrast to the 0.6% expansion in Q1 FY2020, reflecting the subdued volume trends reported for a wide variety of sectors. Benign raw material prices prevented manufacturing GVA from displaying an even deeper contraction in Q2 FY2020, in our view.*

- *Improvement in certain activities such as mining and construction after the lull in rains, a waning of the unfavourable base effect in some sectors such as automobiles, and a gradual improvement in sentiment, should lead to some pickup in GDP and GVA growth in H2 FY2020. Nevertheless, there are downside risks to our current FY2020 GVA and GDP growth projections of 5.6% and 5.8%, respectively.*

OVERVIEW

Unsurprisingly, the growth of India's GDP (at constant 2011-12 prices) eased to a 26-quarter low 4.5% in Q2 FY2020 from 7.0% in Q2 FY2019 and 5.0% in Q1 FY2020 (refer Exhibit 1 and 2). Similarly, the growth of GVA at basic prices declined to 4.3% in Q2 FY2020, the lowest print in the current series, from 6.9% in Q2 FY2019 and 4.9% in Q1 FY2020. Growth of GDP and GVA in Q2 FY2020 printed mildly lower than our forecasts of 4.7% and 4.5%, respectively, on account of manufacturing (-1.0% vs. ICRA's expectation of 0.0%).

The moderation in GDP growth to 4.5% in Q2 FY2020 from 7.0% in Q2 FY2019 was led by the sharp deterioration in GFCF growth to a 19-quarter low 1.0% in Q2 FY2020 from 11.8% in Q2 FY2019, as well as the decline in PFCE growth to 5.1% from 9.8%, respectively. The deterioration in GFCF growth in Q2 FY2020 was in line with the trend in other indicators for investment activity, such as the YoY decline in value of announced and completed projects, as well as the contraction in capital goods output as per the Index for Industrial Production (IIP; -16.8% in Q2 FY2020; +6.6% in Q2 FY2019). In contrast, the pace of expansion of GFCE improved to 15.6% in Q2 FY2020 from 10.9% in Q2 FY2019, benefitting from the uptick in the revenue spending by the Central, as well as state governments[1]. In line with the trend for Q1 FY2020, government spending emerged as the key driver of GDP growth in Q2 FY2020. Excluding GFCE, GDP growth would have been considerably lower at 3.1% in Q2 FY2020. The contraction in exports (to -0.4% in Q2 FY2020 from +12.7% in Q2 FY2019) was outpaced by the YoY decline in imports (to -6.9% from +22.9%, respectively). As a result, the drag from net imports eased in Q2 FY2020 relative to Q2 FY2019.

In sequential terms, the dip in GDP growth in Q2 FY2020 relative to the previous quarter was driven primarily GFCF (to +1.0% from +4.0%). However, GFCF and PFCE growth improved to 15.6% and 5.1%, respectively, in Q2 FY2020 from 8.8% and 3.1%, respectively, during the previous quarter. Further, the deterioration in exports in Q2 FY2020 compared to Q1 FY2020 (to -0.4% from +5.7%), was outpaced by the same for imports (to -6.9% from +4.2%). As a result, net imports exerted a smaller drag on GDP growth in Q2 FY2020 relative to Q1 FY2020 as well.

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

	Q2 FY2019	Q3 FY2019	Q4 FY2019	Q1 FY2020	Q2 FY2020	FY2018RE	FY2019PE
Private Final Consumption Exp.	9.8%	8.1%	7.2%	3.1%	5.1%	7.4%	8.1%
Government Final Consumption Exp.	10.9%	6.5%	13.1%	8.8%	15.6%	15.0%	9.2%
Exports	12.7%	16.7%	10.6%	5.7%	-0.4%	4.7%	12.5%
less Imports	22.9%	14.5%	13.3%	4.2%	-6.9%	17.6%	15.4%
Gross Fixed Capital Formation	11.8%	11.7%	3.6%	4.0%	1.0%	9.3%	10.0%
GDP	**7.0%**	**6.6%**	**5.8%**	**5.0%**	**4.5%**	**7.2%**	**6.8%**
	Q2 FY2019	**Q3 FY2019**	**Q4 FY2019**	**Q1 FY2020**	**Q2 FY2020**	**FY2018RE**	**FY2019PE**
Agriculture, Forestry & Fishing	4.9%	2.8%	-0.1%	2.0%	2.1%	**5.0%**	**2.9%**
Industry	6.7%	7.0%	4.2%	2.7%	0.5%	**5.9%**	**6.9%**
Services	7.3%	7.2%	8.4%	6.9%	6.8%	**8.1%**	**7.5%**
GVA at Basic Prices	**6.9%**	**6.3%**	**5.7%**	**4.9%**	**4.3%**	**6.9%**	**6.6%**
GVA ex-Agri	**7.1%**	**7.1%**	**6.8%**	**5.4%**	**4.6%**	**7.3%**	**7.3%**

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

[1] Data is available for 24 state governments: Andhra Pradesh, Haryana, West Bengal, Uttarakhand, Uttar Pradesh, Tripura, Telangana, Tamil Nadu, Sikkim, Rajasthan, Punjab, Odisha, Nagaland, Mizoram, Meghalaya, Manipur, Maharashtra, Madhya Pradesh, Kerala, Karnataka, Jharkhand, Himachal Pradesh, Gujarat and Chhattisgarh.

On a YoY basis, the pace of expansion of GVA at basic prices fell significantly to 4.3% in Q2 FY2020, the lowest print in the current series, from 6.9% in Q2 FY2019 (refer Annexures A, B and C), led primarily by industry (to +0.5% from +6.7%; driven by manufacturing, electricity and construction), and to a smaller extent, agriculture, forestry and fishing (to +2.1% from +4.9%) and services (to +6.8% from +7.3%). The dip in services growth in Q2 FY2020 from Q2 FY2019 was led by trade, hotels, transport, communication and services related to broadcasting (THTCS) and financial, real estate and professional services (FRP), even as public administration, defence and other services (PADOS) posted an uptick to a six-quarter high growth of 11.6% in Q2 FY2020. Worryingly, excluding PADOS, GVA growth slowed to a subdued 3.2% in Q2 FY2020 from 4.5% in Q1 FY2020, which highlights the sluggishness in economic activity.

In sequential terms, the GVA growth weakened further to 4.3% in Q2 FY2020 from 4.9% in Q1 FY2020, driven by a deceleration in industry (to +0.5% from +2.7%). The worst performing industrial sub-sector in Q2 FY2020 was manufacturing, which recorded a contraction of 1.0%, after a gap of eight quarters, compared to the muted rise of 0.6% in Q1 FY2020. Moreover, the rate of growth of construction, and mining and quarrying eased to 3.3% and 0.1%, respectively, in Q2 FY2020 from 5.7% and 2.7%, respectively, in Q1 FY2020, driven by the disruption caused by heavy rainfall. In addition, the growth of electricity, gas and water supply declined sharply to 3.6% in Q2 FY2020 from 8.6% in the previous quarter.

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

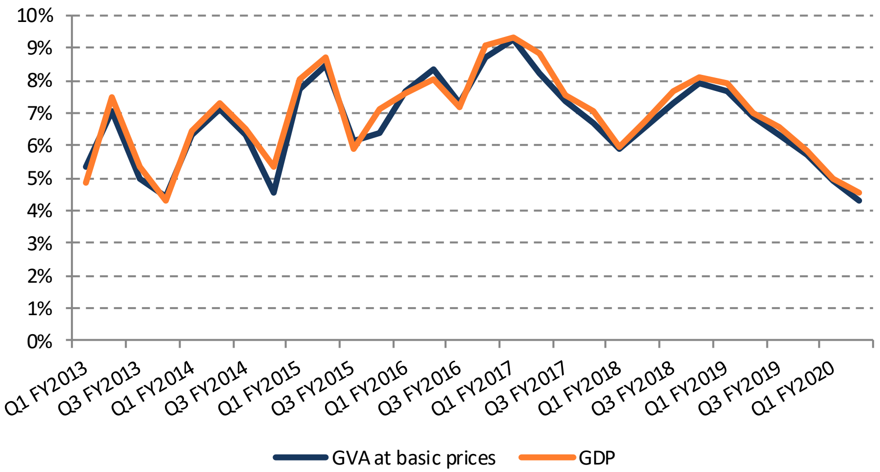
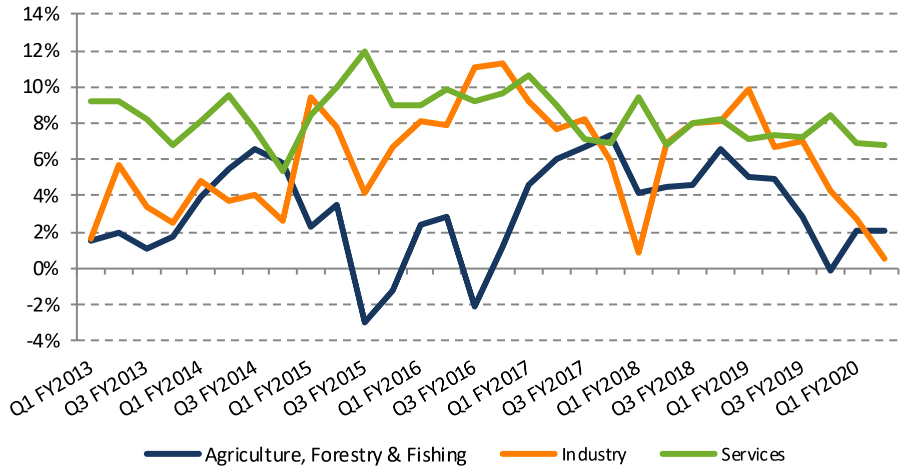


Exhibit 3: YoY Growth in Agriculture, Industry and Services (Constant 2011-12 Prices)



Source: CSO; CEIC; ICRA research

Agriculture and services broadly maintained their growth momentum in Q2 FY2020; while the YoY rise in the GVA of agriculture, forestry and fishing rose mildly to 2.1% in Q2 FY2020 from 2.0% in the previous quarter, there was a marginal dip in the expansion of services to 6.8% from 6.9%, respectively. The latter was led by the downtick in THTCS (to +4.8% from +7.1%) and FRP (to +5.8% from +5.9%), which offset the improvement in the growth of PADOS (to +11.6% from +8.5%).

In nominal terms, GDP growth slowed down to a series-low 6.1% in Q2 FY2020 from 8.0% in Q1 FY2020, while the GVA growth moderated to 6.3% from 7.9%, respectively (refer Exhibit 4). The GDP deflator eased to 1.5% in Q2 FY2020 from 3.0% in Q1 FY2020, whereas the GVA deflator fell to 2.0% from 3.0%, respectively. Notably, the sector-wise deflators displayed a wide variation, at 5.3% for agriculture, 2.2% for services and -0.1% for industry, in Q2 FY2020.

Exhibit 4: GDP and GVA data

GDP	Q2 FY2019	Q3 FY2019	Q4 FY2019	Q1 FY2020	Q2 FY2020	GVA at Basic Prices	Q2 FY2019	Q3 FY2019	Q4 FY2019	Q1 FY2020	Q2 FY2020
Constant	7.0%	6.6%	5.8%	5.0%	4.5%	Constant	6.9%	6.3%	5.7%	4.9%	4.3%
Current	12.0%	11.0%	9.4%	8.0%	6.1%	Current	12.0%	10.3%	9.5%	7.9%	6.3%
Deflator	5.0%	4.4%	3.6%	3.0%	1.5%	Deflator	5.1%	4.0%	3.8%	3.0%	2.0%

Source: CSO; CEIC; ICRA research

With a 7.2% growth of taxes on products less subsidies on products, GDP expansion (+4.5%) exceeded the pace of GVA growth (+4.3%) by 22 bps in Q2 FY2020, higher than the same in Q2 FY2019 (14 bps) and Q1 FY2020 (8 bps).

Overall, in constant terms, GDP growth declined to 4.8% in H1 FY2020 from 7.5% in H1 FY2019, led by GFCF (to +2.5% from +12.5%) and PFCE (to +4.1% from +8.5%), while GVA growth fell to 4.6% from 7.3%, respectively, reflecting the slowdown in industry (to +1.6% from +8.2%), agriculture (to +2.1% from +5.0%), as well as services (to +6.8% from +7.2%). The nominal GDP growth also fell to 7.0% in H1 FY2020 from 12.3% in H1 FY2019, driven primarily by GFCF (to +4.0% from +16.7%) and PFCE (to +7.0% from +13.3%), while GVA growth eased to 7.1% from 12.3%, respectively, reflecting the sharp slowdown in industry (to +2.6% from +14.5%), and a milder moderation in services (to +9.4% from +13.0%). The GDP deflator eased to 2.2% in H1 FY2020 from 4.9% in H1 FY2020, whereas the GVA deflator halved to 2.5% from 5.1%, respectively.

OUTLOOK

The 1st Advance Estimate (AE) of crop production had revealed a mixed trend in the output of kharif crops. However, with flooding in various parts of the country in August-September 2019, and the delayed withdrawal of the monsoon, excess moisture could lead to crop yields being lower than the initial estimates, in our view. While the unseasonal heavy rainfall has led to a delay in rabi sowing, it is expected to pick up pace in the coming weeks. Subsequently, healthy groundwater and reservoir levels should support rabi yields.

The anticipated negative impact of heavy rainfall on kharif yields, and the subsequent delay in rabi sowing, are likely to restrain rural sentiment in the ongoing quarter. However, rural sentiment may improve in Q4 FY2020 if the outlook for the rabi crop remains favourable. The extent to which urban consumer sentiment improves in the remainder of FY2020 will continue to be contingent on the broader outlook for economic growth, availability of financing through NBFCs as well as the degree of transmission of the Repo rate cuts.

While the cut in the corporate tax rates would be positive for investment activity over the medium term, we don't expect a broad-based pickup in capacity expansion by the private sector, until there is greater visibility of a sustained uptick in domestic consumption demand, given the moderate capacity utilisation in various sectors. Moreover, the availability of brownfield assets through the NCLT, as well as disinclination of banks to lend for project finance, are likely to continue to delay capacity expansion by the private sector.

Global economic growth is likely to remain muted in the current year, amidst reports of an anticipated slowdown in most major economies, partly as a fallout from the trade war between US and China. The volume growth of Indian exports is expected to be muted in H2 FY2020.

A post-monsoon pickup in production in various sectors may push up growth in mining, manufacturing and construction in the remainder of FY2020. Moreover, focus on expediting infrastructure projects, and measures to aid real estate developers and proposals to address the stress in the NBFC sector may support a pickup in the construction GVA growth in H2 FY2020.

ICRA expects the YoY growth in bank credit to decelerate sharply to 8.0-8.5% during FY2020 from 13.3% during FY2019, following the decline in incremental credit in H1 FY2020. Moreover, with the bond markets remaining risk averse towards NBFCs, the YoY growth in the volume of bonds outstanding is expected to moderate to ~4% in FY2020 from 12% in FY2019. Additionally, the recent changes in mutual funds regulations are likely to result in a decline in the volume of CP outstanding by March 2020.

Given the uncertainty related to receipts from the telecom sector and disinvestment, it remains unclear whether the GoI may need to undertake expenditure cuts in Q4 FY2020 in order to avoid a fiscal slippage in FY2020. This could emerge as a risk to the economic growth momentum. Regardless, the likely shortfall in central tax devolution to the state governments could pose a key risk to capital expenditure and overall economic growth in H2 FY2020.

The lead indicators for October 2019 have revealed a mixed trend. At present, the extent of the recovery that we should anticipate in the economic growth momentum in H2 FY2020 remains unclear. In our view, improvement in certain activities such as mining and construction after the lull in rains, a waning of the unfavourable base effect in some sectors such as automobiles, and a gradual improvement in sentiment, should lead to some pickup in GDP and GVA growth in H2 FY2020. Nevertheless, there are downside risks to our current FY2020 GVA and GDP growth projections of 5.6% and 5.8%, respectively.

GVA AT BASIC PRICES

GVA growth declined to a series-low 4.3% in Q2 FY2020: Real growth of GVA at basic prices recorded a decline for the sixth consecutive quarter, and printed at a series-low 4.3% in Q2 FY2020, relative to 6.9% in Q2 FY2019 and 4.9% in Q1 FY2020 (refer Exhibit 6). The slowdown in GVA growth in Q2 FY2020 relative to Q2 FY2019 was primarily led by industry (to +0.5% from +6.7%), and to a smaller extent, agriculture, forestry and fishing (to +2.1% from +4.9%), and services (to +6.8% from +7.3%).

Industrial growth declined to a marginal 0.5% in Q2 FY2020: Industrial growth decelerated to a series-low 0.5% in Q2 FY2020 from 6.7% in Q2 FY2019 and 2.7% in Q1 FY2020 (refer Exhibit 7). Industry accounted for a muted 0.2% of the 4.3% GVA growth in Q2 FY2020, led by construction (+0.3%) and electricity, gas, water supply and other utility services (+0.1%), whereas manufacturing dampened the GVA growth by 0.2% during the quarter.

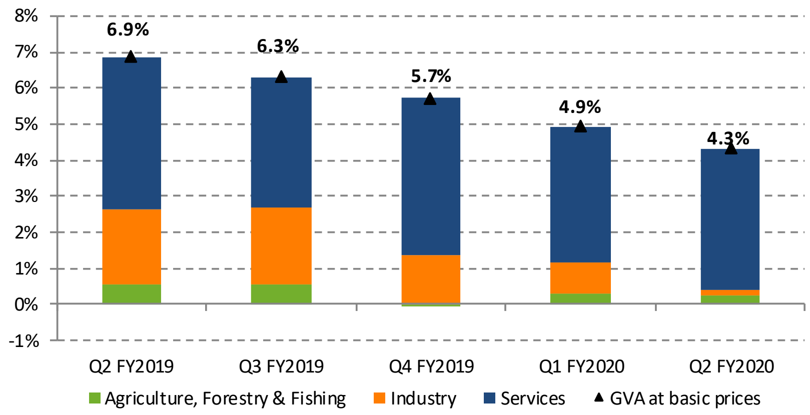
Manufacturing GVA contracted by 1.0% (a nine-quarter low) in Q2 FY2020, in contrast to the YoY growth of 6.9% and 0.6% in Q2 FY2019 and Q1 FY2020, respectively. The deterioration in the performance of manufacturing GVA in Q2 FY2020 relative to Q2 FY2019 was driven by the trend in volumes (-0.4% in Q2 FY2020; +5.6% in Q2 FY2019; as per the IIP). However, benign raw material prices prevented manufacturing GVA from an even deeper contraction in Q2 FY2020, in our view.

Construction GVA growth deteriorated to a nine-quarter low 3.3% in Q2 FY2020 from 8.5% and 5.7%, respectively, in Q2 FY2019 and Q1 FY2020. The fall in construction GVA growth in Q2 FY2020 compared to Q2 FY2019 was in line with the trend in its inputs, such as cement production (to +0.3% from +12.5%) and consumption of finished steel (to +3.3% from +9.9%, as per CSO data. Additionally, heavy rainfall during August-September 2019 is likely to have dampened construction GVA growth in Q2 FY2020.

The growth in electricity, gas, water supply and other utility services worsened to a 17-quarter low 3.6% in Q2 FY2020 from 8.7% in Q2 FY2019 and 8.6% in Q1 FY2020. Data released by the Central Electricity Authority (CEA) indicates that there was a deterioration in the performance of thermal electricity generation (to -2.3% from +2.3%), as well as hydroelectricity generation (to +9.1% from +14.8%) in Q2 FY2020 relative to Q2 FY2019.

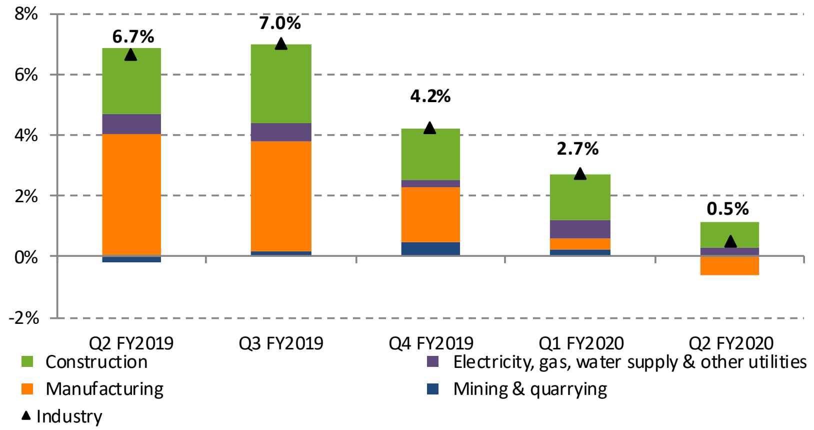
The GVA of mining and quarrying recorded a marginal YoY rise of 0.1% in Q2 FY2020, albeit an improvement from the YoY contraction of 2.2% in Q2 FY2019. However, the performance of the sector worsened in Q2 FY2020 relative to the mild 2.7% rise recorded

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



Source: CSO; CEIC; ICRA research

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



Source: CSO; CEIC; ICRA research

in Q1 FY2020. The weak trend in Q2 FY2020 is likely to have been led by the 10.3% contraction in coal output, according to the Ministry of Commerce & Industry data.

Agricultural growth stood at 2.1% in Q2 FY2020: Growth in agriculture, forestry and fishing declined to 2.1% in Q2 FY2020 from 4.9% in Q2 FY2019, while recording a mild rise from 2.0% in Q1 FY2020. The sector accounted for a muted 0.2% of the 4.3% GVA growth in Q2 FY2020. The 1st AE of crop production, released on September 23, 2019, indicated a mixed trend for the output of various kharif crops in FY2020 relative to the Fourth AE (released on August 19, 2019) for the previous year (refer Exhibit 8). Further, in a press release dated November 22, 2019, the Ministry of Agriculture & Farmers Welfare indicated that floods and landslides during the southwest monsoon season 2019 had adversely impacted ~6.4 million hectares of agricultural land, which accounted for ~6.0% of the total land sown under kharif crops in FY2020. The mixed kharif output trends as well as an unfavourable base contributed to the muted GVA growth for agriculture, forestry and fishing in Q2 FY2020 relative to Q2 FY2019.

Services sector growth dipped to 6.8% in Q2 FY2020: Service sector growth eased to an eight-quarter low 6.8% in Q2 FY2020 from 7.3% in Q2 FY2019, and 6.9% in Q1 FY2020 (refer Exhibit 9). Nevertheless, the services sector remained the principal driver of GVA growth, accounting for 3.9% of the 4.3% GVA growth in Q2 FY2020; the contribution of PADOS, FRP and THTCS to GVA growth stood at 1.5%, 1.5% and 0.9%, respectively.

The growth of PADOS improved to a six-quarter high 11.6% in Q2 FY2020 from 8.6% in Q2 FY2019 and 8.5% in Q1 FY2020. This benefitted from the sharp 25.7% expansion in the GoI's non-interest revenue expenditure in Q2 FY2020, according to the data released by the Controller General of Accounts, after the presentation of the Union Budget in July 2019. Further, for the 24 state governments for which data is available from the Comptroller and Auditor General, revenue expenditure growth stood at a considerable 16.8% in Q2 FY2020.

The growth of FRP fell to a six-quarter low 5.8% in Q2 FY2020 from 7.0% in Q2 FY2019 and 5.9% in Q1 FY2020, in line with the trend for the growth in bank credit which declined to 8.6% at end-Q2 FY2020 from 12.6% at end-Q2 FY2019, respectively, as per the RBI data.

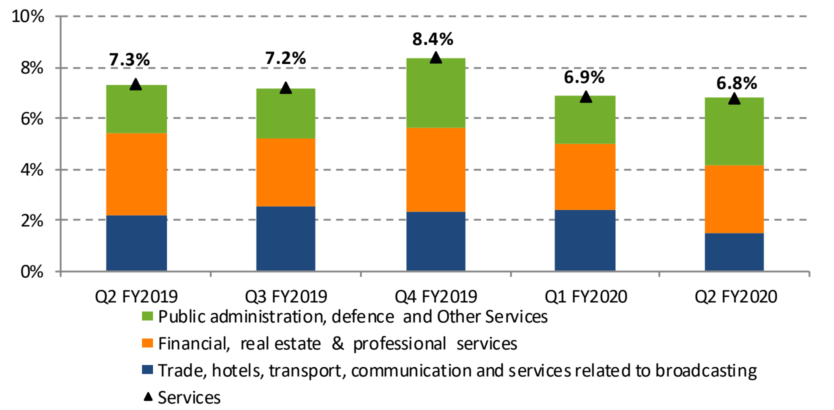
The YoY growth of THTCS eased to a 25-quarter low 4.8% in Q2 FY2020 from 6.9% in Q2 FY2019 and 7.1% in Q1 FY2020. This was in line with the trends revealed by some indicators of trade in Q2 FY2020. For instance, net tonne kilometres and passenger kilometres recorded a YoY decline in Q2 FY2020 (-7.0% and -2.0%, respectively), as per the CSO data.

Exhibit 8: Trends for production of kharif crops (Million Tonnes)

	Kharif Production		
	FY2019 4th AE	FY2020 1st AE	Growth
Rice	102.1	100.4	-1.7%
Coarse cereals	31.0	32.0	3.3%
Pulses	8.6	8.2	-4.2%
Oilseeds	21.3	22.4	5.2%
Sugarcane	400.2	377.8	-5.6%
Cotton*	28.7	32.3	12.4%
Jute and Mesta**	9.8	10.0	1.9%

AE: Advance Estimates
Source: Ministry of Agriculture, GoI; CEIC; ICRA research
**Million bales of 170 kgs. each*
***Million bales of 180 kgs. each*

Exhibit 9: YoY Services Growth and its Composition (Constant 2011-12 Prices)



Source: CSO; CEIC; ICRA research

EXPENDITURE ON GDP

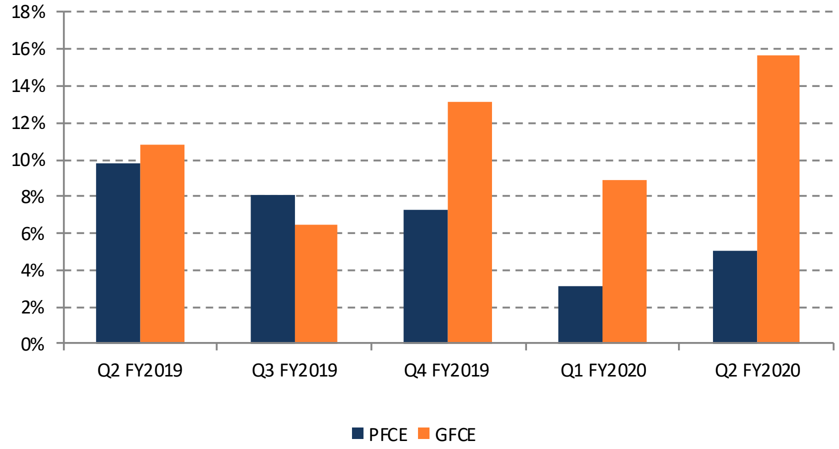
GDP growth eased further to 4.5% in Q2 FY2020: The YoY growth of GDP (at constant 2011-12 prices) dipped to a 26-quarter low 4.5% in Q2 FY2020 from 7.0% in Q2 FY2019 and 5.0% in Q1 FY2020, reflecting anaemic investment activity.

PFCE growth stood at 5.1% in Q2 FY2020: The pace of growth of PFCE declined to 5.1% in Q2 FY2020 from 9.8% in Q2 FY2019, while recording an uptick from 3.1% in Q1 FY2020 (refer Exhibit 10). This sequential uptick in growth of PFCE in Q2 FY2020 is somewhat at odds with the evidence from various sectors regarding subdued consumption sentiment in rural as well as urban areas. PFCE remained the key driver of GDP growth, accounting for a substantial 2.8% of the 4.5% GDP growth in Q2 FY2020, higher than the contribution of GFCE (+1.9%) as well as GFCF (+0.3%). PFCE as a percentage of GDP (at current prices) stood at 59.3% in Q2 FY2020, higher than the same in Q2 FY2019 (58.3%) and Q1 FY2020 (57.7%).

GFCE expanded to a six-quarter high 15.6% in Q2 FY2020: The pace of growth of GFCE increased to a sharp 15.6% in Q2 FY2020 from 10.9% in Q2 FY2019 as well as 8.8% in Q1 FY2020. GFCE stood out as the fastest growing expenditure-side component in Q2 FY2020 and accounted for 1.9% of the 4.5% GDP growth in that quarter; Central and state government spending in the post-election quarter propped up the momentum of GDP expansion. Moreover, GFCE as a percentage of GDP (at current prices) stood at 13.9% in Q2 FY2020, higher than the contribution of 12.4% each in Q2 FY2019 and Q1 FY2020.

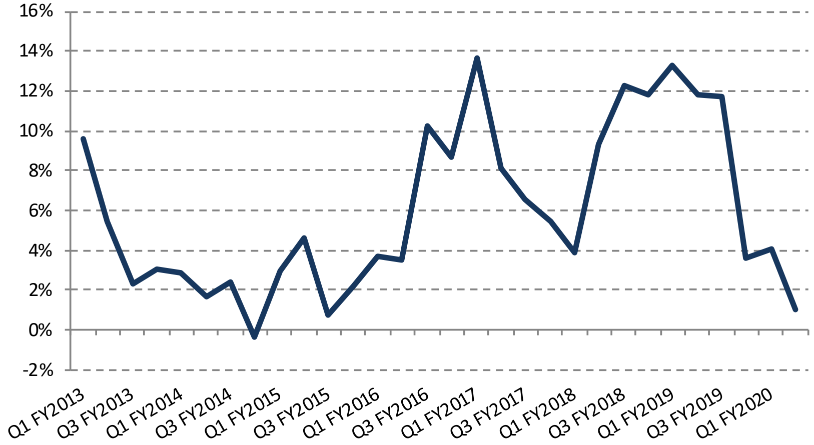
GFCF growth declined to a 19-quarter low 1.0% in Q2 FY2020: GFCF growth fell sharply to a mild 1.0% in Q2 FY2020 from 11.8% in Q2 FY2019 and 4.0% in Q1 FY2020 (refer Exhibit 11). This was in line with the unfavourable performance of some indicators of investment activity in Q2 FY2020. For instance, the value of new and completed projects declined on a YoY basis to Rs. 1.1 trillion and Rs. 0.6 trillion, respectively, in Q2 FY2020 from Rs. 2.3 trillion and Rs. 1.0 trillion, respectively, in Q2 FY2019 (source: www.economicoutlook.cmie.com, Centre for Monitoring Indian Economy, October 30, 2019). Moreover, the IIP indicates that capital goods output contracted by 16.8% in Q2 FY2020 (+6.6% in Q2 FY2019). In contrast, there was a sharp improvement in the YoY performance of capital spending of the Central and state governments (aforesaid sub-set of 24 state governments) in Q2 FY2020 (+54.2% and +9.7%, respectively) relative to Q1 FY2020 (-26.0% and -6.3%, respectively).

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



Source: CSO; CEIC; ICRA research

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



Source: CSO; CEIC; ICRA research

GFCF accounted for a mild 0.3% of the 4.5% GDP growth in Q2 FY2020. In addition, GFCF as a percentage of GDP (at current prices) stood at 27.8% in Q2 FY2020, lower than the same in Q2 FY2019 (29.2%) and Q1 FY2020 (29.7%).

The pace of YoY contraction of valuables widened to 11.1% in Q2 FY2020 (constant 2011-12 prices), from 0.5% in Q2 FY2019 and 3.4% in Q1 FY2020. In addition, at current prices, valuables displayed a YoY decline of 10.7% in Q2 FY2020; this is likely to reflect the substantial 52.7% YoY contraction in the value of gold imports during the quarter (source: Ministry of Commerce and Industry). Notably, valuables as a percentage of GDP (at current prices) stood at 0.9% in Q2 FY2020, lower than in Q2 FY2019 (1.1%), and in line with the same in Q1 FY2020 (0.9%).

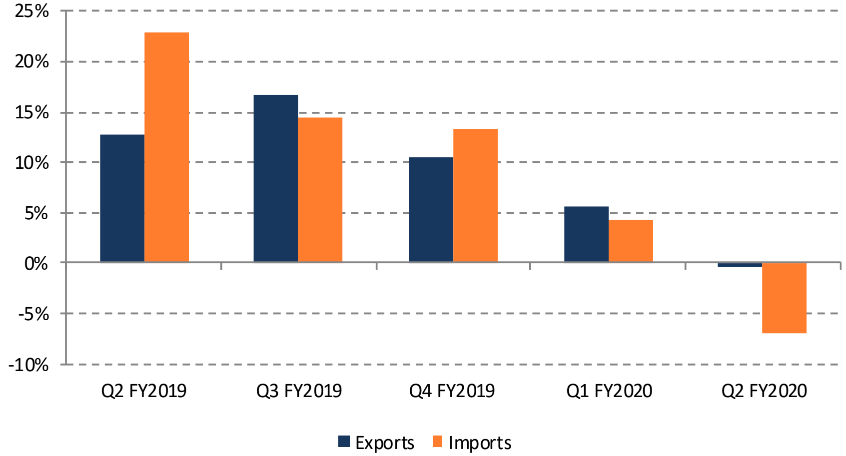
In constant terms, inventories recorded a contraction of 0.8% after a gap of nine quarters in Q2 FY2020, in contrast to the YoY rise in Q2 FY2019 (+4.7%) and in Q1 FY2020 (+2.1%). Inventories as a percentage of GDP (at current prices) stood at 1.0% in Q2 FY2020, in line with the same in Q1 FY2020 as well as Q2 FY2019.

Exports and Imports recorded a contraction in Q2 FY2020: At constant prices, exports recorded a mild YoY decline of 0.4% (a 14-quarter low) in Q2 FY2020, in contrast to the expansion of 12.7% in Q2 FY2019 and the modest growth of 5.7% in Q1 FY2020 (refer Exhibit 12). Similarly, imports contracted by a 15-quarter low 6.9% in Q2 FY2020, as opposed to the sharp expansion of 22.9% in Q2 FY2019 and rise of 4.2% in Q1 FY2020. The drag imposed by net exports in constant terms, eased to Rs. 1359.3 billion in Q2 FY2020 from Rs. 1976.0 billion in Q2 FY2019.

However, at current prices, data released by the CSO indicates that exports rose by 1.4%, while imports recorded a contraction of 5.4% in Q2 FY2020, in YoY terms. This is somewhat at odds with the data released by the Ministry of Commerce and Industry, which indicates a contraction of 3.1% and 13.4%, respectively in merchandise exports and imports in Q2 FY2020 relative to Q2 FY2019, in US$ terms. Moreover, the data released by RBI reveals that services exports and imports (in US$ terms) recorded a healthy rise of 8.7% and 15.3%, respectively, in Q2 FY2020 relative to 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 FY2020 fell to (+) Rs. 276.2 billion (at 2011-12 prices), from (+) Rs. 1,003.0 billion in Q2 FY2019.

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



Source: CSO; CEIC; ICRA research

ANNEXURE A

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

	Q2 FY2019	Q3 FY2019	Q4 FY2019	Q1 FY2020	Q2 FY2020	FY2018 RE	FY2019 PE
GVA at Basic Prices	**6.9%**	**6.3%**	**5.7%**	**4.9%**	**4.3%**	**6.9%**	**6.6%**
Agriculture, Forestry & Fishing	***4.9%***	***2.8%***	***-0.1%***	***2.0%***	***2.1%***	***5.0%***	***2.9%***
Industry	***6.7%***	***7.0%***	***4.2%***	***2.7%***	***0.5%***	***5.9%***	***6.9%***
Mining & Quarrying	-2.2%	1.8%	4.2%	2.7%	0.1%	5.1%	1.3%
Manufacturing	6.9%	6.4%	3.1%	0.6%	-1.0%	5.9%	6.9%
Electricity, gas, water supply & other utilities	8.7%	8.3%	4.3%	8.6%	3.6%	8.6%	7.0%
Construction	8.5%	9.7%	7.1%	5.7%	3.3%	5.6%	8.7%
Services	***7.3%***	***7.2%***	***8.4%***	***6.9%***	***6.8%***	***8.1%***	***7.5%***
Trade, Hotels, Transport, Communication & Services related to Broadcasting	6.9%	6.9%	6.0%	7.1%	4.8%	7.8%	6.9%
Financial, Real Estate & Professional Services	7.0%	7.2%	9.5%	5.9%	5.8%	6.2%	7.4%
Public Administration, Defence and Other Services	8.6%	7.5%	10.7%	8.5%	11.6%	11.9%	8.6%

Source: CSO; CEIC; ICRA research

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

	Q2 FY2019	Q3 FY2019	Q4 FY2019	Q1 FY2020	Q2 FY2020	FY2018 RE	FY2019 PE
GDP	**7.0%**	**6.6%**	**5.8%**	**5.0%**	**4.5%**	**7.2%**	**6.8%**
PFCE	9.8%	8.1%	7.2%	3.1%	5.1%	7.4%	8.1%
GFCE	10.9%	6.5%	13.1%	8.8%	15.6%	15.0%	9.2%
Exports	12.7%	16.7%	10.6%	5.7%	-0.4%	4.7%	12.5%
less Imports	22.9%	14.5%	13.3%	4.2%	-6.9%	17.6%	15.4%
Gross Capital Formation	11.0%	11.2%	3.6%	3.7%	0.5%	10.4%	9.0%
GFCF	11.8%	11.7%	3.6%	4.0%	1.0%	9.3%	10.0%
Change in Stocks	4.7%	4.3%	1.0%	2.1%	-0.8%	21.2%	4.8%
Valuables	-0.5%	2.6%	5.2%	-3.4%	-11.1%	27.4%	-9.0%
Discrepancies	-13.6%	-113.7%	6.0%	37.9%	-72.5%	42.3%	-21.8%

Source: CSO; CEIC; ICRA research

ANNEXURE B

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

	Q2 FY2019	Q3 FY2019	Q4 FY2019	Q1 FY2020	Q2 FY2020	FY2018 RE	FY2019 PE
GVA at Basic Prices	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Agriculture, Forestry & Fishing	***11.3%***	***18.2%***	***14.7%***	***12.9%***	***11.0%***	***14.9%***	***14.4%***
Industry	***30.9%***	***30.9%***	***32.0%***	***30.7%***	***29.8%***	***31.2%***	***31.3%***
Mining & Quarrying	2.3%	2.7%	3.4%	3.0%	2.2%	3.0%	2.9%
Manufacturing	18.3%	17.4%	18.7%	17.0%	17.4%	18.0%	18.0%
Electricity, gas, water supply & other utilities	2.3%	2.2%	2.1%	2.4%	2.3%	2.2%	2.2%
Construction	8.0%	8.5%	7.8%	8.4%	7.9%	8.0%	8.2%
Services	***57.8%***	***51.0%***	***53.3%***	***56.4%***	***59.2%***	***53.9%***	***54.3%***
Trade, Hotels, Transport, Communication & Services related to Broadcasting	18.3%	18.7%	20.4%	19.4%	18.4%	19.1%	19.1%
Financial, Real Estate & Professional Services	26.3%	18.9%	18.9%	24.5%	26.7%	21.9%	22.1%
Public Administration, Defence and Other Services	13.2%	13.3%	13.9%	12.4%	14.1%	12.9%	13.1%

Source: CSO; CEIC; ICRA research

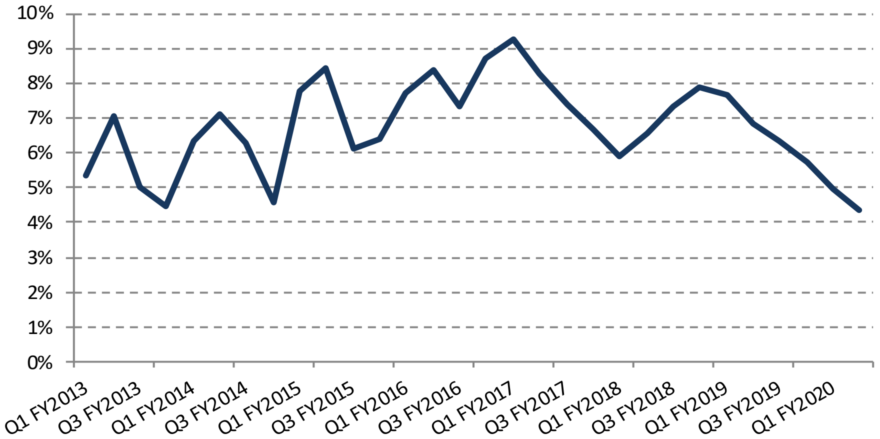
Exhibit 16: Composition of GDP and Final Expenditures (Constant 2011-12 Prices)

	Q2 FY2019	Q3 FY2019	Q4 FY2019	Q1 FY2020	Q2 FY2020	FY2018 RE	FY2019 PE
GDP	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
PFCE	56.1%	58.9%	56.8%	55.1%	56.3%	56.1%	56.3%
GFCE	11.9%	9.7%	9.9%	11.8%	13.1%	9.7%	10.5%
Exports	21.2%	21.8%	20.0%	20.6%	20.2%	20.3%	19.8%
less Imports	26.9%	25.7%	23.3%	25.1%	24.0%	21.3%	23.4%
Gross Capital Formation	34.9%	35.6%	33.1%	34.8%	33.6%	33.0%	34.0%
GFCF	32.4%	33.4%	30.7%	32.5%	31.3%	30.8%	31.4%
Change in Stocks	1.1%	1.1%	1.1%	1.1%	1.1%	1.0%	1.1%
Valuables	1.3%	1.2%	1.2%	1.1%	1.1%	1.2%	1.5%
Discrepancies	2.9%	-0.3%	3.5%	2.9%	0.8%	2.2%	2.9%

Source: CSO; CEIC; ICRA research

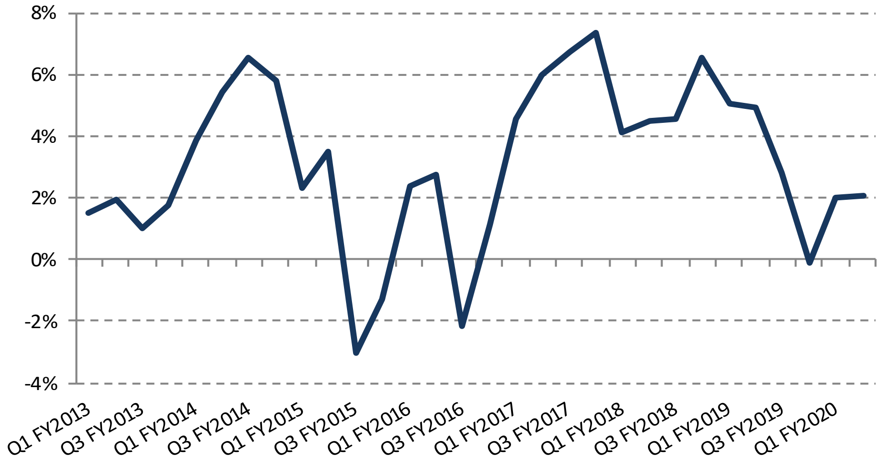
ANNEXURE C

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



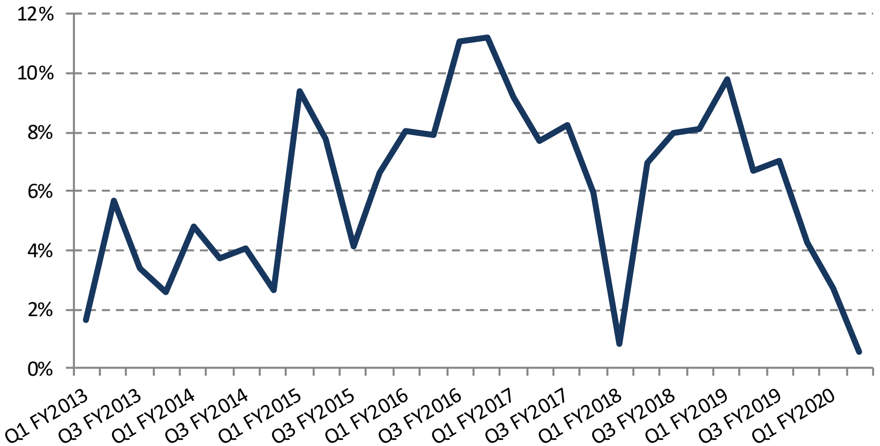
Source: CSO; CEIC; ICRA research

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



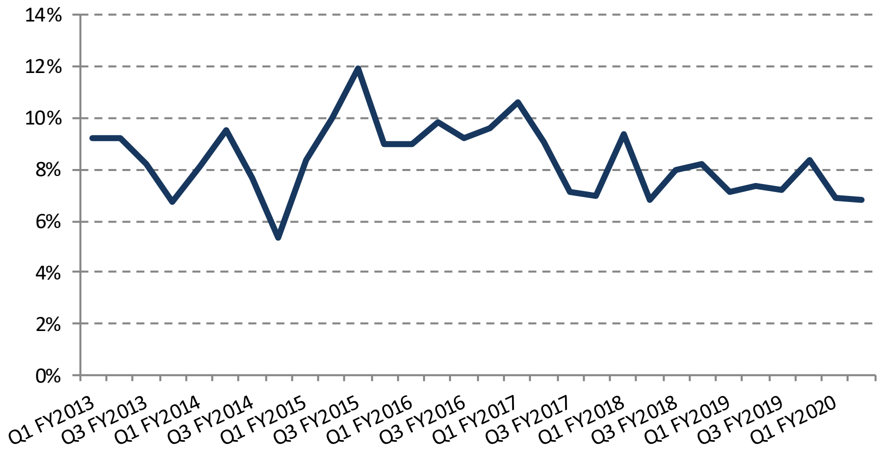
Source: CSO; CEIC; ICRA research

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



Source: CSO; CEIC; ICRA research

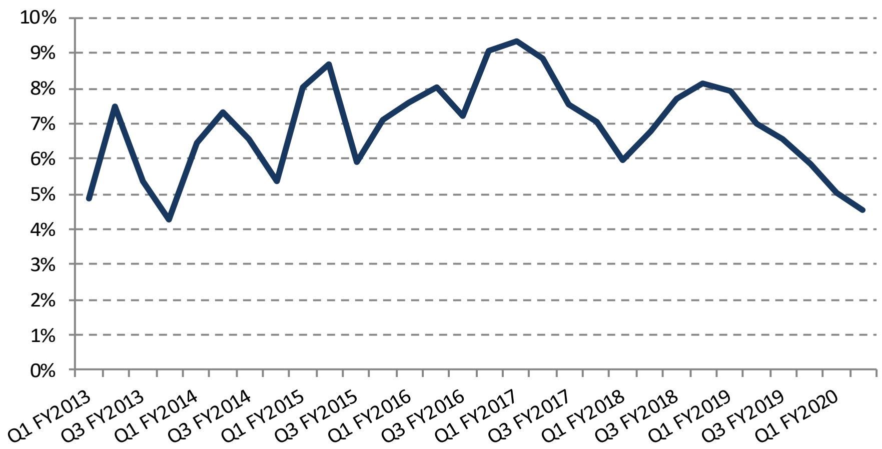
Exhibit 20: Growth in Services (Constant 2011-12 Prices)



Source: CSO; CEIC; ICRA research

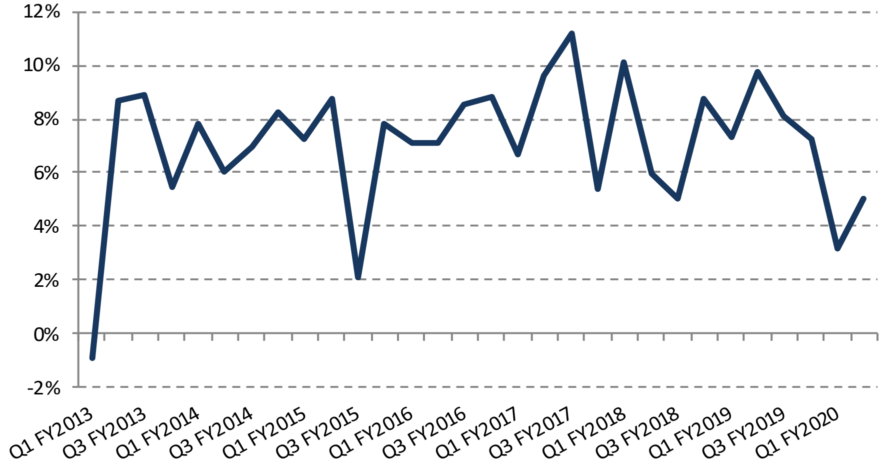
ICRA

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



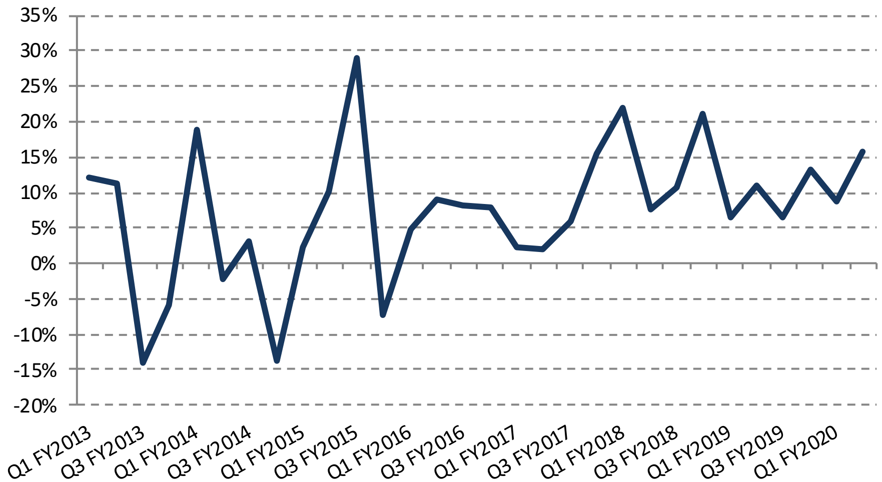
Source: CSO; CEIC; ICRA research

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



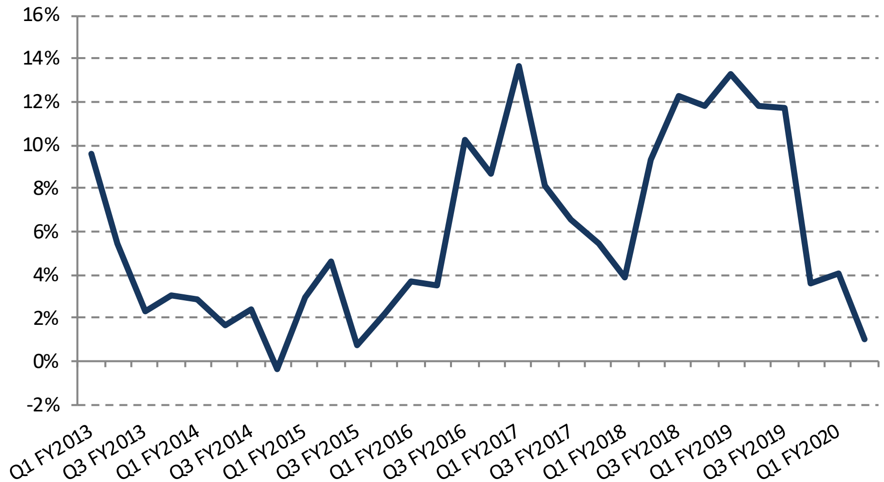
Source: CSO; CEIC; ICRA research

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



Source: CSO; CEIC; ICRA research

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



Source: CSO; CEIC; ICRA research

ICRA
A MOODY'S INVESTORS SERVICE COMPANY

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

Alliance with Moody's Investors Service

The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

The ICRA Factor

Our services are designed to

- Provide information and guidance to institutional and individual investors/creditors;
- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

ICRA

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

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

1809-1811, Shapath V,
Opposite Karnavati Club
S.G. Highway, Ahmedabad - 380015
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 0194, 020 6606 9999

Email: info@icraindia.com
Helpdesk: 9354738909
Website: www.icra.in/ www.icraresearch.in