



## GROSS DOMESTIC PRODUCT

**Q1 FY2023 GDP growth printed at 13.5%, in line with our forecast; FY2023 growth estimate maintained at 7.2%**

**September 2022**

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## HIGHLIGHTS



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*GDP and GVA growth expanded at four-quarter high 13.5% and 12.7%, resp., in Q1 FY2023, broadly in line with our forecasts (+13.0%; +12.6%)*

*Within industry, the growth of mining, manufacturing and electricity mildly trailed our projections, suggesting a larger role of commodity prices in squeezing margins*

*Robust demand for services, recent commodity price correction and its impact on margins should support GDP growth of 6.5-7.0% in Q2 FY2023*

*For FY2023, we maintain our GDP growth forecast at 7.2%*

Broadly in line with our forecast (+13.0%), India's GDP growth surged to a four-quarter high of 13.5% in Q1 FY2023 (+4.1% in Q4 FY2022) in year-on-year (YoY) terms. On the expenditure side, private final consumption expenditure (PFCE: +25.9%) and gross fixed capital formation (GFCF: +20.1%) powered the YoY GDP expansion in Q1 FY2023, amidst an anaemic growth in government final consumption expenditure (GFCE: +1.3%) and a sizeable drag from net exports in the quarter. The services GVA expanded by 17.6% YoY in Q1 FY2023, aided by a low base and a robust, albeit incomplete, recovery in contact-intensive services, even as the performance of some industrial sub-sectors such as manufacturing (+4.8%) and mining and quarrying (+6.5%) was relatively subdued, reflecting the impact of elevated commodity prices on business margins in the quarter. The robust demand for services, and some easing in the commodity price-inflicted pain for producers should support a YoY GDP growth of 6.5-7.0% in Q2 FY2023, and 7.2% in FY2023 as a whole, even as the uneven monsoon is expected to weigh on agri GVA growth and rural demand.

- **YoY GDP growth at a four-quarter high of 13.5% in Q1 FY2023:** As per the initial data published by the NSO, India's real GDP growth rose to 13.5% in Q1 FY2023 from 4.1% in Q4 FY2022 and was similar to our expectation (+13.0%). The pick-up in growth was aided by a low base owing to the second wave of Covid-19 in India in Q1 FY2022 and a robust revival in expenditure on contact-intensive services following the less severe Covid 3.0 wave and wider vaccine coverage. PFCE and GFCF powered the YoY GDP expansion in Q1 FY2023, with a growth of 25.9% and 20.1%, respectively, amidst a moderation in growth in GFCE (+1.3%) and widening net exports in the quarter. The real GDP exceeded the pre-Covid levels of Q1 FY2020 by 3.8% in Q1 FY2023.
- **GVA growth pegged at 12.7% YoY in Q1 FY2023:** The GVA growth rose to 12.7% in Q1 FY2023 from 3.9% in Q4 FY2022, owing to a base-effect led 17.6% expansion in services and an 8.6% rise in industry, amid a surprisingly sanguine 4.5% growth in agricultural GVA belying the adverse impact of the heatwave on the rabi harvest of wheat. Moreover, GVA at basic prices exceeded the pre-Covid level of Q1 FY2020 by 4.7% in Q1 FY2023, with all sub-sectors barring THTCS reporting an expansion as compared to pre-Covid levels.
- **GDP growth forecast for FY2023 maintained at 7.2%:** The Q1 FY2023 GDP print is in line with our estimate, and does not warrant a revision in our real GDP projection of 7.2% for FY2023. The robust recovery in the demand for contact-intensive services, supported by pent-up demand, increased consumer confidence levels and wider vaccination coverage, and the easing in commodity prices are expected to support growth during the rest of the year even as the uneven monsoon weighs upon agri GVA growth and rural demand.
- **Rate hike quantum likely to be eased in the September 2022 policy review:** The Q1 FY2023 GDP print is substantially lower than the Monetary Policy Committee's (MPC) projection of 16.2% for the quarter. Besides, we believe that the CPI inflation print for Q2 FY2023 will mildly undershoot the MPC's forecast for that quarter. Consequently, while we expect another rate hike in the end-September 2022 policy meeting, the MPC is likely to temper the quantum of the hike as compared to the 50 bps increase in the last two policy meetings.

## Overview

**YoY economic performance in Q1 FY2023:** As anticipated, the YoY expansion in GDP (at constant 2011-12 prices) in Q1 FY2023 rose to a four-quarter high of 13.5% from 4.1% in Q4 FY2022, benefitting from the low base of last year's disruptions related to the second wave of Covid-19 in India in Q1 FY2022. The Q1 FY2023 GDP print was broadly in line our forecast of 13.0%, but substantially trailed the MPC's projection of 16.2% for the quarter. On the expenditure side, PFCE and GFCF powered the YoY GDP expansion in Q1 FY2023, with an expansion of 25.9% and 20.1%, respectively, amidst an anaemic growth in GFCE (+1.3%), and a sizeable drag from net exports in the quarter.

Printing in line with our forecast (+12.6%), the GVA (at basic prices) reported a YoY expansion of 12.7% in Q1 FY2023 (+3.9% in Q4 FY2022; +18.1% in Q1 FY2022), driven by a sharp base-effect led 17.6% expansion in services and an 8.6% rise in industry (reflecting the impact of elevated commodity prices on margins of businesses), amid a surprisingly healthy 4.5% growth in agricultural GVA belying the adverse impact of the heatwave on the rabi harvest of wheat (refer Annexures A, B and C). Notably, public administration, defence and other services (PADOS; +26.3%), and trade, hotels, transport, communication and services related to broadcasting (THTCS; +25.7%) drove the expansion in services sector in Q1 FY2023. Growth was aided by a robust demand for travel-related services, owing to the revival of confidence for availing of leisure services, resumption of corporate travel amid back-to-office work environment and onset of normalisation of behaviours among economic agents after the less severe Covid 3.0 wave, and a revival in other services component of PADOS such as education (resumption of schools), recreation, other personal services, etc. which were avoided/halted/constrained during the pandemic. Excluding PADOS, GVA growth stood at a lower 10.9% in Q1 FY2023.

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

	Q1 FY2022	Q2 FY2022	Q3 FY2022	Q4 FY2022	Q1 FY2023	FY2021 RE	FY2022 PE
Private Final Consumption Exp.	14.4%	10.5%	7.4%	1.8%	25.9%	-6.0%	7.9%
Government Final Consumption Exp.	-4.8%	8.9%	3.0%	4.8%	1.3%	3.6%	2.6%
Exports	40.8%	20.7%	23.1%	16.9%	14.7%	-9.2%	24.3%
Imports	61.1%	41.0%	33.6%	18.0%	37.2%	-13.8%	35.5%
Gross Fixed Capital Formation	62.5%	14.6%	2.1%	5.1%	20.1%	-10.4%	15.8%
<b>GDP</b>	<b>20.1%</b>	<b>8.4%</b>	<b>5.4%</b>	<b>4.1%</b>	<b>13.5%</b>	<b>-6.6%</b>	<b>8.7%</b>
	Q1 FY2022	Q2 FY2022	Q3 FY2022	Q4 FY2022	Q1 FY2023	FY2021 RE	FY2022 PE
Agriculture, Forestry & Fishing	2.2%	3.2%	2.5%	4.1%	4.5%	3.3%	3.0%
Industry	46.6%	7.0%	0.3%	1.3%	8.6%	-3.3%	10.3%
Services	10.5%	10.2%	8.1%	5.5%	17.6%	-7.8%	8.4%
<b>GVA at Basic Prices</b>	<b>18.1%</b>	<b>8.3%</b>	<b>4.7%</b>	<b>3.9%</b>	<b>12.7%</b>	<b>-4.8%</b>	<b>8.1%</b>
<b>GVA ex-Agri</b>	<b>21.6%</b>	<b>9.1%</b>	<b>5.2%</b>	<b>3.8%</b>	<b>14.3%</b>	<b>-6.2%</b>	<b>9.1%</b>

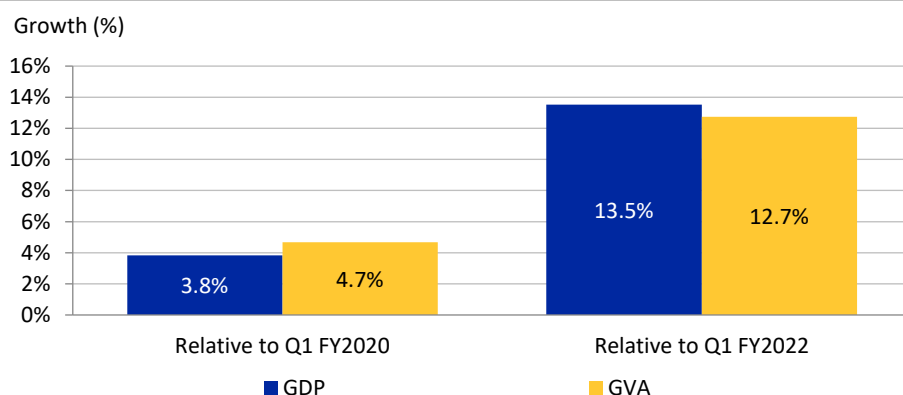
RE: Revised Estimates; PE: Provisional Estimates; **Source:** NSO; CEIC; ICRA Research

We foresee modest downside risks to the NSO's initial estimate of 12.7% GVA growth in Q1 FY2023, on account of potential downward revisions in the agricultural performance from the current level of 4.5%.

The YoY GVA growth of industry at 8.6% in Q1 FY2023 was largely on account of encouraging trends for construction (+16.8%), electricity, gas, water supply and other utility services (+14.7%), which outweighed the subdued performances of manufacturing (+4.8%), and mining and quarrying (+6.5%). Within industry, the growth of mining, manufacturing and electricity mildly trailed our projections, suggesting a larger role of commodity prices in squeezing margins following the escalation of geopolitical conflict between Russia and Ukraine.

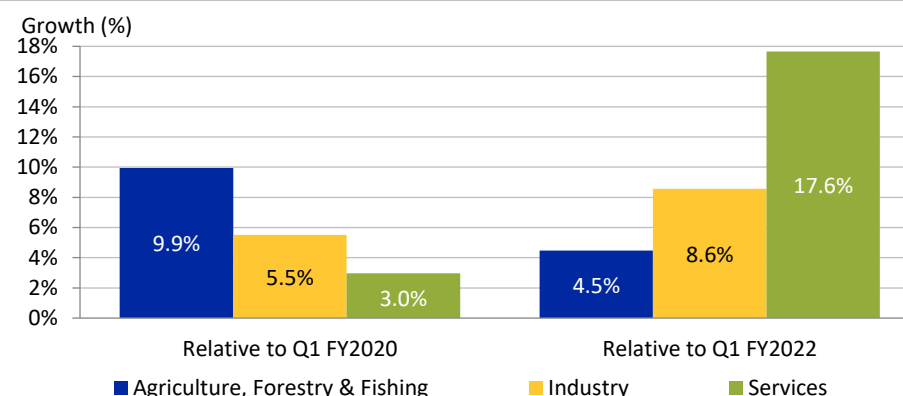
Net indirect taxes (taxes on products minus subsidies on products) expanded by 25.6% YoY in Q1 FY2023 on a low base of Covid 2.0, and as a result, GDP (+13.5%) recorded a higher YoY growth relative to GVA (+12.7%).

**EXHIBIT 2: Performance of GDP and GVA (at constant 2011-12 prices) in Q1 FY2023 relative to Q1 FY2022 (YoY) and Q1 FY2020 (pre-Covid)**



Source: NSO; CEIC; ICRA Research

**EXHIBIT 3: Performance of sectors in Q1 FY2023 relative to Q1 FY2022 (YoY) and Q1 FY2020 (pre-Covid)**



Source: NSO; CEIC; ICRA Research

**Performance relative to pre-Covid levels:** Encouragingly, the GDP and GVA at basic prices in Q1 FY2023 exceeded the pre-Covid levels of Q1 FY2020 by 3.8% and 4.7%, respectively (refer Exhibit 2). The rise in the absolute level of real GDP in Q1 FY2023 above the pre-Covid level of Q1 FY2020 was led by PFCE (+9.9%), GFCF (+6.7%), GFCE (+9.6%), and exports (+20.2%).

On a sobering note, the GVA for services exceeded the pre-Covid level by a mild 3.0% in Q1 FY2023 (refer Exhibit 3), as THTCS trailed the Q1 FY2020 level by a significant 15.5% in Q1 FY2023, thereby offsetting a large part of the growth in FRP (+10.5%) and PADOS (+18.9%). Relative to the corresponding pre-Covid levels, industrial GVA was 5.5% higher than the pre-Covid level in Q1 FY2023. This was led by a healthy growth in electricity, gas, water supply and other utility services (+11.2%) and manufacturing (+7.0%), followed by a relatively muted growth in mining (+3.3%), and construction (+1.2%) in Q1 FY2023, relative to Q1 FY2020. Agriculture, forestry and fishing displayed a healthy growth of 9.9% relative to the pre-Covid quarter.

**Performance of Nominal GDP in Q1 FY2023:** In nominal terms, the YoY expansion in the GDP and GVA was pegged at 26.7% and 26.5%, respectively, in Q1 FY2023, higher than the levels seen in Q4 FY2022 (+14.9% and +15.2%, respectively; refer Exhibit 4). The GDP and GVA deflator rose to 13.2% and 13.8%, respectively, in Q1 FY2023 from 10.8% and 11.3%, respectively, in Q4 FY2022. This reflects the hardening in the CPI and WPI inflation during Q1 FY2023, relative to Q4 FY2022, on account of the impact of geopolitical tensions across major categories such as crude oil, food and key commodities like metals amid the depreciation in INR relative to the US\$ in Q1 FY2023.

#### EXHIBIT 4: GDP and GVA data

GDP	Q1 FY2022	Q2 FY2022	Q3 FY2022	Q4 FY2022	Q1 FY2023	GVA at Basic Prices	Q1 FY2022	Q2 FY2021	Q3 FY2022	Q4 FY2022	Q1 FY2023
<b>Constant</b>	20.1%	8.4%	5.4%	4.1%	13.5%	<b>Constant</b>	18.1%	8.3%	4.7%	3.9%	12.7%
<b>Current</b>	32.4%	19.0%	15.7%	14.9%	26.7%	<b>Current</b>	26.4%	17.9%	15.6%	15.2%	26.5%
<b>Deflator</b>	12.3%	10.6%	10.3%	10.8%	13.2%	<b>Deflator</b>	8.3%	9.6%	10.9%	11.3%	13.8%

Source: NSO; CEIC; ICRA Research

## OUTLOOK

Amid an uneven distribution of rainfall, the kharif acreage was 1.6% lower than the year ago levels as on August 26, 2022, dragged down by rice (-6.0%; due to deficient rains in key producing states) and pulses (-5.0%). The earlier-than-usual withdrawal of the Southwest monsoon in parts of North India (from the first week of Sep 2022) as predicted by the IMD, does not bode well for a catch up in sowing, even though reservoirs are healthy and above historical levels. **Given the trends in kharif sowing, we estimate the agri GVA growth at ~2.0% each in Q2-Q3 FY2023, with eventual yields guiding the farm sentiment amidst modest upticks in MSPs for such crops in the FY2023 marketing season. In our view, the healthy reservoir levels augur well for a timely onset of rabi sowing, although concerns regarding the availability of labour in specific states as well as fertilisers would continue. Notwithstanding an estimated pickup in growth to 3.0% in Q4 FY2023 on a high base, we foresee a dip in the agri GVA expansion to ~2.0% for FY2023 from 3.0% in FY2022. We believe that the ongoing resilience in services demand and moderation in commodity inflation augurs well for protecting the incomes and sentiments of the non-farm portion of the rural economy.**

The robust demand for contact-intensive services in India has benefitted from multiple factors including the revival of confidence for availing leisure services, resumption of corporate travel amid back-to-office work environment and wide vaccination coverage. While base normalisation and monsoon pick-up tempered the economic activity momentum in July 2022, robust demand for services and recent correction in global commodity prices from the peaks in mid-June 2022, augur well for business margins, household consumption and investment demand in the remainder of this fiscal. Further, the measures undertaken by the GoI for taming inflation in items such as edible oils, pulses, etc. are positive for consumption demand.

However, signs of weakening of external demand have emerged since late-June 2022, with a slowdown in domestic merchandise exports, following the fears of a global recession amid monetary policy tightening, the ongoing Russia-Ukraine conflict and fresh uncertainties around the US-China tensions. The freight rates have moderated on a YoY basis in July 2022 across all major routes, indicating some easing of global supply chain disruptions. Nevertheless, any disruption related to an impending global recession, container shortages, and other supply chain

bottlenecks would hurt India's exports and are key monitorables. India's services exports are expected to remain healthy in FY2023, although we are cautious regarding the impact of a potential recession in the US and Europe on software exports in H2 FY2023.

The capacity utilisation (CU) rose to a three-year high 75.3% in Q4 FY2022 from 72.4% in Q3 FY2022. ICRA expects CU to witness a seasonal dip to ~71-72% in Q1 FY2023 before rising gradually to ~75-76% by Q3 FY2023, exacerbated by uneven demand for goods amidst geo-political headwinds. We continue to expect CU to cross 75% after Q3 FY2023, which would then trigger a broader capacity expansion by the private sector. At this stage, a robust pace of Government capex would be critical to bolster economic activity over the next two-three quarters.

The Gol had budgeted the revex to dip by a marginal 0.2% to Rs. 31.9 trillion relative to the FY2022 Prov. However, we expect the additional subsidy requirements to push up the Gol's revex by Rs. 2.0 trillion as compared to the FY2023 BE, taking the growth in revex up to 7.2% in the year, with upside risks emanating from the extension of the free food grain scheme beyond September 2022. While the higher spending on subsidies may bolster sentiment and demand, its multiplier effect may be limited. The resumption of schools, institutions, etc. has improved the consumption expenditure by households on education, and related items and services such as bus/tram rides, which were constrained during the period of pandemic. This trend is expected to continue in the remainder of FY2023, auguring well for generation of incomes of the sections directly/indirectly linked to such sectors.

**Overall, we expect the GDP growth to moderate in Q2 FY2023, as the base effect normalises. Additionally, an uneven monsoon is likely to weigh upon agri GVA growth and rural demand. However, a robust demand for services, and some easing in the commodity price-inflicted pain for producers should support a YoY GDP growth of 6.5-7.0% in the ongoing quarter, and 7.2% for FY2023.**



## GVA AT BASIC PRICES

**GVA growth pegged at 12.7% YoY in Q1 FY2023 on Covid 2.0 base:** In line with our forecast (+12.6%), the GVA (at basic prices) recorded a YoY expansion of 12.7% in Q1 FY2023 (+3.9% in Q4 FY2022; +18.1% in Q1 FY2022) on a low base of Covid 2.0. The YoY surge in GVA growth in Q1 FY2023 was led by services (+17.6%), followed by industry (+8.6%) and agriculture, forestry and fishing (+4.5%; refer Exhibit 5).

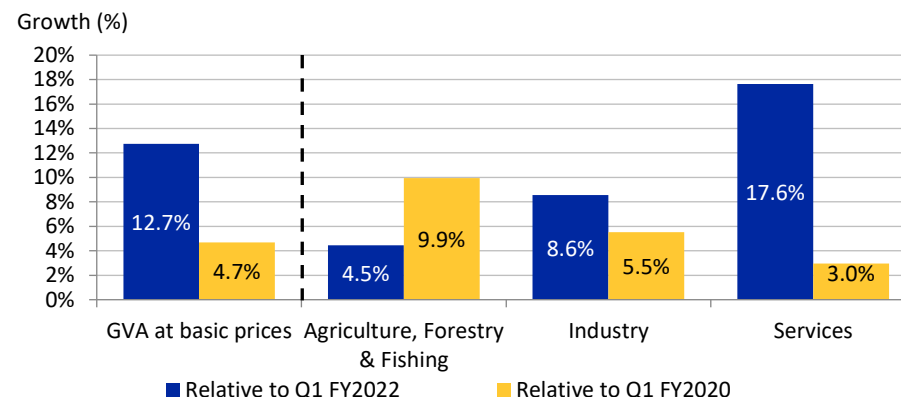
**Services was the fastest growing sector in Q1 FY2023 with GVA growth of 17.6%:** The GVA of the services sector witnessed a considerable YoY expansion of 17.6% in Q1 FY2023 (+10.5% in Q1 FY2022; +5.5% in Q4 FY2022; refer Exhibit 6), led by PADOS (+26.3%) and THTCS (+25.7%), even as FRP (+9.2%) recorded a relatively lower growth in that quarter. Overall, services accounted for a significant 9.4% of the 12.7% GVA growth in Q1 FY2023, led by THTCS (+3.7%) and PADOS (+3.2%).

The GVA growth of PADOS has been pegged at 26.3% in Q1 FY2023 (+6.2% in Q1 FY2022; +7.7% in Q4 FY2022), which can be attributed to the healthy revival of other services component such as education, recreation, other personal services, etc., which were constrained/avoided/halted during the pandemic. While the Gol's non-interest revenue expenditure rose by muted 3.5% in that quarter, the growth of aggregate revenue expenditure of the 23 states, for which data is available, was sharper at 13.1%.

The healthy YoY expansion 25.7% of THTCS GVA during Q1 FY2023 (+34.3% in Q1 FY2022; +5.3% in Q4 FY2022) was driven by the robust, even if incomplete, recovery in demand for contact-intensive services after the Covid 3.0 wave in India, with the revival of confidence for availing leisure services, resumption of corporate travel amid back-to-office environment and wide vaccination coverage, as well as the low base of Covid 2.0.

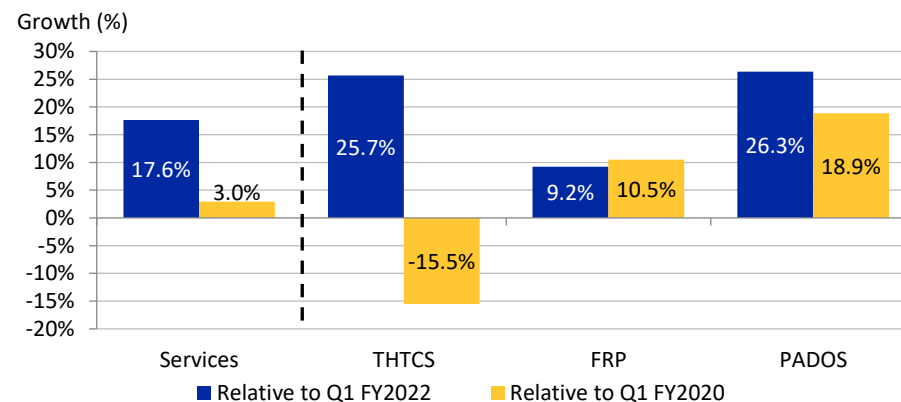
The YoY growth of 9.2% in the GVA of FRP in Q1 FY2023 can be attributed to the robust growth in the non-food bank credit (+9.7%), and a mild uptick in CP volumes during this quarter, even as growth in the volumes of corporate bonds saw a moderation.

**EXHIBIT 5: Performance of GVA and its Components in Q1 FY2023 relative to Q1 FY2022 and Q1 FY2020 (pre-Covid)**



Source: NSO; CEIC; ICRA Research

**EXHIBIT 6: Performance of Services and its Components in Q1 FY2023 relative to Q1 FY2022 and Q1 FY2020 (pre-Covid)**



Source: NSO; CEIC; ICRA Research

**Industrial sector grew by 8.6% in Q1 FY2023, dragged down by manufacturing:** Industrial GVA recorded an 8.6% YoY growth in Q1 FY2023 (+46.6% in Q1 FY2022; +1.3% in Q4 FY2022), with encouraging trends for construction (+16.8%), electricity, gas, water supply and other utility services (+14.7%; refer Exhibit 8), outweighing the subdued performances of manufacturing (+4.8%), and mining and quarrying (+6.5%). The growth of mining, manufacturing and electricity mildly trailed our projections, suggesting a larger role of commodity prices in squeezing margins. Industry accounted for a mild 2.7% of the 12.7% GVA growth in Q1 FY2023, led by construction (+1.2%) and manufacturing (+0.9%).

Mirroring the healthy rise in volumes of cement (+17.2%) and steel (+6.8%) during Q1 FY2023, the construction GVA grew by 16.8% in Q1 FY2022 (+71.3% in Q1 FY2022; +2.0% in Q4 FY2022), although it was partly impacted by margin compression in these sectors.

Moreover, the GVA of electricity, gas, water supply and other utility services witnessed a healthy growth of 14.7% in Q1 FY2023 (+13.8% in Q1 FY2022; +4.5% in Q4 FY2022), reflecting the rise in electricity generation to meet heatwave-led demand across sectors.

The GVA growth of mining and quarrying stood at 6.5% in Q1 FY2023 (+18.0% in Q1 FY2022; +6.7% in Q4 FY2022), modestly lower the 8.9% growth in the mining output (led by coal and natural gas), as depicted by the IIP data.

The manufacturing GVA reverted to a growth of 4.8% in Q1 FY2023 (+49.0% in Q1 FY2022; -0.2% in Q4 FY2022), but was sharply lower than the growth in the manufacturing IIP of 12.7% (+53.0% in Q1 FY2022; +1.2% in Q4 FY2022). This suggests that elevated input and fuel costs weighed on margins, especially for consumer durables and capital goods, amidst subdued demand for goods and uneven recovery in investment demand, respectively.

**Agri GVA rose by 4.5% in Q1 FY2023:** The surprisingly healthy GVA growth of 4.5% for agriculture, forestry and fishing in Q1 FY2023 (+2.2% in Q1 FY2022; +4.1% in Q2 FY2022), was much higher than the muted 0.6% rise in rabi output (foodgrains and oilseeds) portrayed by the 4<sup>th</sup> advance estimate of crop production released by the Ministry of Agriculture and Farmers' Welfare (refer Exhibit 7). This sector accounted for a mild 0.7% of the 12.7% GVA growth in Q1 FY2023. The adverse impact of the heatwave on rabi wheat output suggests a likely downward revision in agri GVA growth at a later stage.

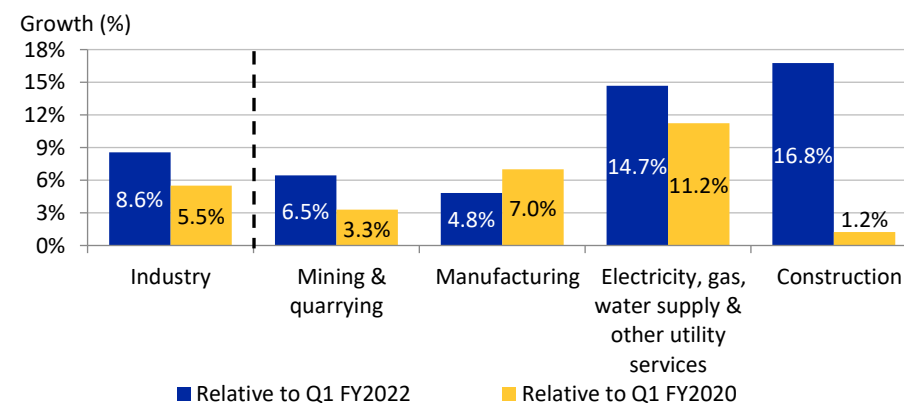
**EXHIBIT 7: Trends for production of kharif and rabi crops (Million Tonnes)**

In Million Tonnes	Kharif Production			Rabi Production		
	Final FY2021	4 <sup>th</sup> AE FY2022	Growth	Final FY2021	4 <sup>th</sup> AE FY2022	Growth
<b>Wheat</b>	NA			109.6	106.8	-2.5%
<b>Rice</b>	105.2	111.8	6.2%	19.2	18.5	-3.3%
<b>Coarse Cereals</b>	36.8	35.9	-2.3%	14.6	15.0	2.9%
<b>Pulses</b>	8.6	8.4	-2.9%	16.8	19.3	14.7%
<b>Oilseeds</b>	23.7	23.9	0.7%	12.2	13.8	13.0%
<b>Cotton*</b>	35.2	31.2	-11.5%	NA		
<b>Sugarcane</b>	405.4	431.8	6.5%	NA		

AE: Advance Estimates; \*Million bales of 170 kgs. each

Source: Ministry of Agriculture, GoI; CEIC; ICRA Research

**EXHIBIT 8: Performance of Industry and its Components in Q1 FY2023 relative to Q1 FY2022 and Q1 FY2020 (pre-Covid)**



Source: NSO; CEIC; ICRA Research



## EXPENDITURE ON GDP

**YoY GDP growth pegged at 13.5% for Q1 FY2023, similar to our estimate:** The Indian GDP (at constant 2011-12 prices) witnessed a base-effect led surge to a four-quarter high YoY growth of 13.5% in Q1 FY2023 (+4.1% in Q4 FY2022), led by PFCE (+25.9% in Q1 FY2023; +1.8% in Q4 FY2022), GFCF (+20.1% in Q1 FY2023; +5.1% in Q4 FY2022), while GFCE displayed an anaemic growth (+1.3% in Q1 FY2023; +4.8% in Q4 FY2022; refer Exhibit 9). Additionally, net exports exerted a larger drag on GDP growth in the just-concluded quarter relative to Q4 FY2022.

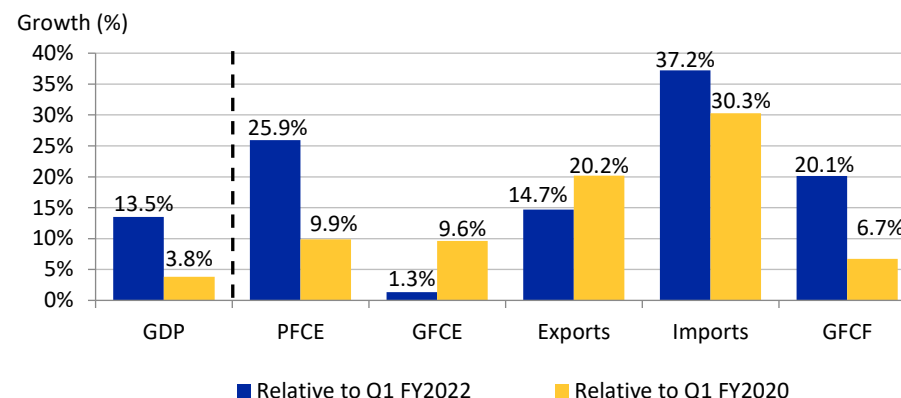
**PFCE expanded by 25.9% YoY in Q1 FY2023 led by invigorated consumption of services:**

The PFCE posted a robust YoY growth of 25.9% in Q1 FY2023 (+14.4% in Q1 FY2022; +1.8% in Q4 FY2022; refer Exhibit 10). This was supported by a healthy revival of services consumption post Covid 3.0 wave as evinced by the recovery in hotel occupancy rates and domestic passenger traffic of airlines, as well as a recovery in consumer confidence revealed by the RBI's consumer confidence survey, even as there was underlying weakness in demand for consumer durables (-8.6% in Q1 FY2023 over Q1 FY2020, as per the IIP data). PFCE accounted for 14.0% of the 13.5% GDP growth in Q1 FY2023, and as a percentage of GDP (at current prices) stood at 61.1% in Q1 FY2023 (59.2% in Q4 FY2022 and 55.5% in Q1 FY2022).

**GFCF grew in double-digits in Q1 FY2023 despite weak investment trends:** The GFCF recorded a sharp YoY growth of 20.1% in Q1 FY2023 (+62.5% in Q1 FY2022; +5.1% in Q4 FY2022), on account of a low base. The Govt's capex, infra/construction output and new project announcements showed encouraging trends in Q1 FY2023, along with a robust order book position of construction and capital goods companies and the resilience in housing sales as evinced by stamp duty collections. However, project completions, states' capex and capital goods output remained subdued, suggesting that the recovery in investment demand was uneven. While Govt's capex expanded by 57.0% YoY to Rs. 1.8 trillion in Q1 FY2023, that of 23 state governments<sup>1</sup>, for which the data is available, contracted by 9.3% in the quarter. Nonetheless, GFCF accounted for a sizeable 6.6% of the

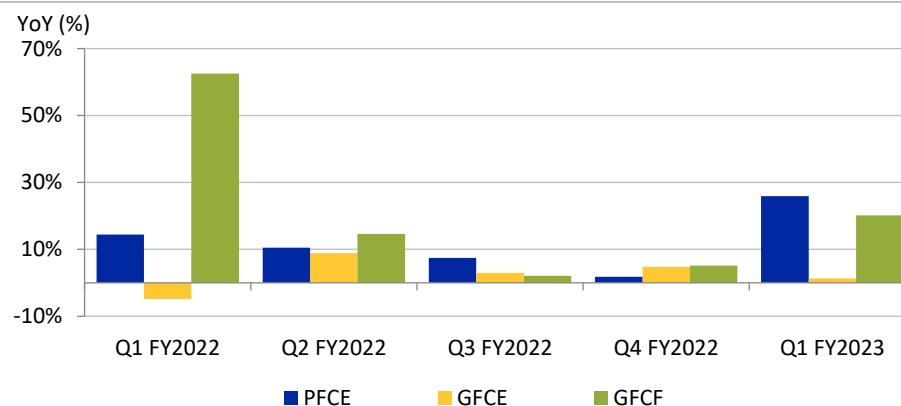
<sup>1</sup> All states except Andhra Pradesh, Assam, Goa, Mizoram, and Tamil Nadu.

**EXHIBIT 9: Performance of GDP and its Components in Q1 FY2023 relative to Q1 FY2022 and Q1 FY2020 (pre-Covid)**



Source: NSO; CEIC; ICRA Research

**EXHIBIT 10: YoY Growth of PFCE, GFCE and GFCF (Constant 2011-12 Prices)**



Source: NSO; CEIC; ICRA Research

13.5% GDP growth in Q1 FY2023. Moreover, GFCF as a percentage of GDP (at current prices) stood at 29.2% in Q1 FY2023 (30.5% in Q4 FY2022 and 28.2% in Q1 FY2022).

At constant 2011-12 prices, valuables grew by 49.3% YoY in Q1 FY2023, in line with the growth of the combined value of gold and silver imports in that quarter (+49.3%; source: Ministry of Commerce), aided by healthy demand during the *Akshaya Tiritiya* season.

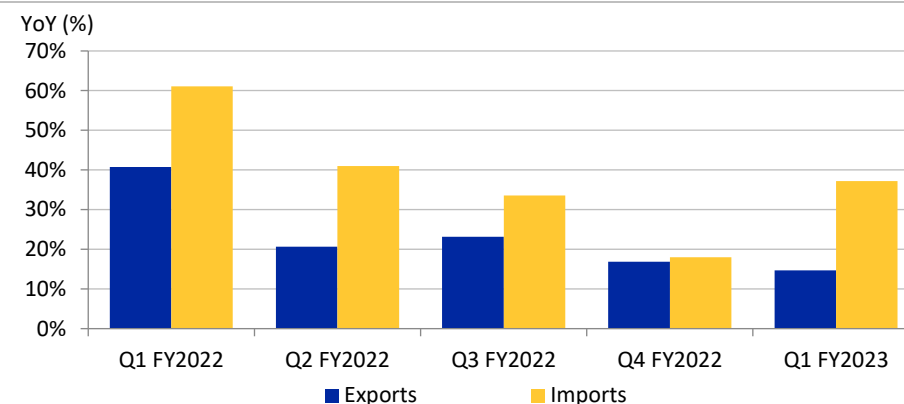
An accumulation of inventories was witnessed for the fifth consecutive quarter in Q1 FY2023, in contrast to the drawdown seen in Q4 FY2021. However, inventories as a percentage of GDP (at current prices) stood at 0.7% in Q1 FY2023 (0.9% in Q4 FY2022 and 1.0% in Q1 FY2022).

**GFCE recorded a muted growth of 1.3% in Q1 FY2023:** Despite an extremely low base, the GFCE grew by a marginal 1.3% YoY in Q1 FY2023 (-4.8% in Q1 FY2022; +4.8% in Q4 FY2022). This was driven by the trend in the Gol's non-interest revenue expenditure, which recorded a mild YoY growth of 3.5% in Q1 FY2023, while exceeding the pre-Covid level of Q1 FY2020 by 5.3%. However, the combined revenue expenditure of the 23 state governments, for which data is available, posted a considerable YoY growth of 13.1% in Q1 FY2023, and was also a significant 38.9% higher than the pre-Covid level.

GFCE accounted for 0.2% (lowest share) in the 13.5% GDP growth in Q1 FY2023. Additionally, GFCE as a percentage of GDP (at current prices) stood at 11.3% in the quarter, lower than 11.9% in Q4 FY2022 and 12.9% in Q1 FY2022.

**Net exports exerted a deeper drag on GDP growth in Q1 FY2023:** The YoY growth in exports, at constant prices, slowed down to 14.7% in Q1 FY2023 from 16.9% in Q4 FY2022, while that for imports more-than-doubled to 37.2% from 18.0%, respectively (refer Exhibit 11). Given that the growth of imports sharply outpaced that of exports in Q1 FY2023, the drag of net exports on the GDP deepened to ~Rs. 3.0 trillion from ~Rs. 1.0 trillion in Q1 FY2022.

**EXHIBIT 11: YoY Growth of Exports and Imports (Constant 2011-12 Prices)**



Source: NSO; CEIC; ICRA Research

At current prices, the data released by the NSO indicates that the YoY expansion in exports and imports stood at 29.7% and 56.0%, respectively, in Q1 FY2023 (+50.7% and +72.5%, respectively, in Q1 FY2022).

Similarly, the data released by the Ministry of Commerce indicates that in US\$ terms, both merchandise exports and imports witnessed a YoY expansion of 24.5% and 56.4%, respectively, in Q1 FY2023, with domestic demand outpacing external demand amid geopolitical uncertainties. Additionally, the data released by the RBI reveals that, in US\$ terms, services exports and imports recorded a YoY growth of 27.2% and 48.1%, respectively, in Q1 FY2023.

**Discrepancies dipped in Q1 FY2023:** 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 Q1 FY2023 declined to (+) Rs. 124.4 billion (at 2011-12 prices) from (+) Rs. 497.8 billion in Q1 FY2022.

## ANNEXURE A

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

	Q1 FY2022	Q2 FY2022	Q3 FY2022	Q4 FY2022	Q1 FY2023	FY2021 RE	FY2022 PE
<b>GVA at Basic Prices</b>	<b>18.1%</b>	<b>8.3%</b>	<b>4.7%</b>	<b>3.9%</b>	<b>12.7%</b>	<b>-4.8%</b>	<b>8.1%</b>
<b>Agriculture, Forestry &amp; Fishing</b>	<b>2.2%</b>	<b>3.2%</b>	<b>2.5%</b>	<b>4.1%</b>	<b>4.5%</b>	<b>3.3%</b>	<b>3.0%</b>
<b>Industry</b>	<b>46.6%</b>	<b>7.0%</b>	<b>0.3%</b>	<b>1.3%</b>	<b>8.6%</b>	<b>-3.3%</b>	<b>10.3%</b>
Mining & Quarrying	18.0%	14.5%	9.2%	6.7%	6.5%	-8.6%	11.5%
Manufacturing	49.0%	5.6%	0.3%	-0.2%	4.8%	-0.6%	9.9%
Electricity, gas, water supply & other utilities	13.8%	8.5%	3.7%	4.5%	14.7%	-3.6%	7.5%
Construction	71.3%	8.1%	-2.8%	2.0%	16.8%	-7.3%	11.5%
<b>Services</b>	<b>10.5%</b>	<b>10.2%</b>	<b>8.1%</b>	<b>5.5%</b>	<b>17.6%</b>	<b>-7.8%</b>	<b>8.4%</b>
Trade, Hotels, Transport, Communication & Services related to Broadcasting	34.3%	9.6%	6.3%	5.3%	25.7%	-20.2%	11.1%
Financial, Real Estate & Professional Services	2.3%	6.1%	4.2%	4.3%	9.2%	2.2%	4.2%
Public Administration, Defence and Other Services	6.2%	19.4%	16.7%	7.7%	26.3%	-5.5%	12.6%

RE: Revised Estimates; PE: Provisional Estimates; **Source:** NSO; CEIC; ICRA Research

### EXHIBIT 13: GDP and Final Expenditures (YoY Growth, Constant 2011-12 Prices)

	Q1 FY2022	Q2 FY2022	Q3 FY2022	Q4 FY2022	Q1 FY2023	FY2021 RE	FY2022 PE
<b>GDP</b>	<b>20.1%</b>	<b>8.4%</b>	<b>5.4%</b>	<b>4.1%</b>	<b>13.5%</b>	<b>-6.6%</b>	<b>8.7%</b>
PFCE	14.4%	10.5%	7.4%	1.8%	25.9%	-6.0%	7.9%
GFCE	-4.8%	8.9%	3.0%	4.8%	1.3%	3.6%	2.6%
Exports	40.8%	20.7%	23.1%	16.9%	14.7%	-9.2%	24.3%
Imports	61.1%	41.0%	33.6%	18.0%	37.2%	-13.8%	35.5%
Gross Capital Formation	72.3%	26.8%	8.4%	5.2%	19.3%	-11.4%	21.7%
GFCF	62.5%	14.6%	2.1%	5.1%	20.1%	-10.4%	15.8%
Change in Stocks	-2300.9%	-1659.6%	-1581.7%	-1574.2%	-17.4%	-110.7%	-1723.9%
Valuables	515.5%	171.7%	53.0%	-48.9%	49.3%	26.4%	41.9%
Discrepancies	-37.6%	-108.1%	58.4%	344.1%	-75.0%	-39.8%	-9.1%

RE: Revised Estimates; PE: Provisional Estimates; **Source:** NSO; CEIC; ICRA Research

## ANNEXURE B

### EXHIBIT 14: Composition of GVA at Basic Prices (Constant 2011-12 Prices)

	Q1 FY2022	Q2 FY2022	Q3 FY2022	Q4 FY2022	Q1 FY2023	FY2021 RE	FY2022 PE
<b>GVA at Basic Prices</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Agriculture, Forestry &amp; Fishing</b>	<b>15.5%</b>	<b>12.2%</b>	<b>18.8%</b>	<b>15.3%</b>	<b>14.3%</b>	<b>16.3%</b>	<b>15.5%</b>
<b>Industry</b>	<b>31.4%</b>	<b>30.7%</b>	<b>28.8%</b>	<b>32.2%</b>	<b>30.3%</b>	<b>30.1%</b>	<b>30.8%</b>
Mining & Quarrying	2.6%	2.1%	2.3%	2.7%	2.5%	2.3%	2.4%
Manufacturing	18.9%	18.8%	16.8%	18.2%	17.6%	17.9%	18.2%
Electricity, gas, water supply & other utilities	2.5%	2.5%	2.1%	2.1%	2.6%	2.3%	2.3%
Construction	7.4%	7.3%	7.6%	9.1%	7.6%	7.7%	7.9%
<b>Services</b>	<b>53.1%</b>	<b>57.1%</b>	<b>52.4%</b>	<b>52.5%</b>	<b>55.4%</b>	<b>53.6%</b>	<b>53.7%</b>
Trade, Hotels, Transport, Communication & Services related to Broadcasting	14.6%	17.1%	17.9%	20.0%	16.3%	17.1%	17.5%
Financial, Real Estate & Professional Services	26.4%	26.0%	20.1%	19.2%	25.6%	23.5%	22.7%
Public Administration, Defence and Other Services	12.1%	14.1%	14.4%	13.3%	13.6%	13.0%	13.5%

RE: Revised Estimates; PE: Provisional Estimates; **Source:** NSO; CEIC; ICRA Research

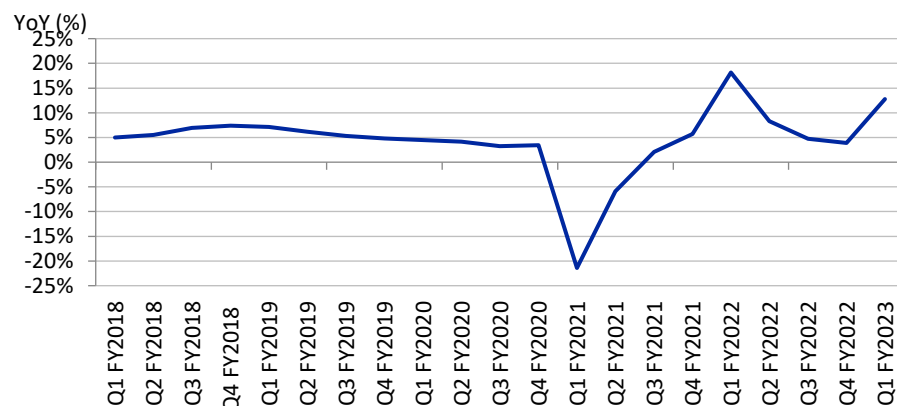
### EXHIBIT 15: Composition of GDP and Final Expenditures (Constant 2011-12 Prices)

	Q1 FY2022	Q2 FY2022	Q3 FY2022	Q4 FY2022	Q1 FY2023	FY2021 RE	FY2022 PE
<b>GDP</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
PFCE	54.0%	56.6%	61.0%	55.5%	59.9%	57.3%	56.9%
GFCE	12.6%	9.8%	9.3%	11.3%	11.2%	11.3%	10.7%
Exports	22.7%	22.2%	20.8%	20.8%	22.9%	18.8%	21.5%
Imports	25.7%	27.0%	26.8%	25.8%	31.0%	21.1%	26.3%
Gross Capital Formation	34.8%	38.6%	33.4%	36.1%	36.6%	31.9%	35.7%
GFCF	32.8%	33.4%	30.1%	33.6%	34.7%	30.5%	32.5%
Change in Stocks	1.4%	1.3%	1.2%	1.3%	1.0%	-0.1%	1.3%
Valuables	0.7%	4.0%	2.0%	1.3%	0.9%	1.5%	2.0%
Discrepancies	1.5%	-0.2%	2.3%	2.1%	0.3%	1.8%	1.5%

RE: Revised Estimates; PE: Provisional Estimates; **Source:** NSO; CEIC; ICRA Research

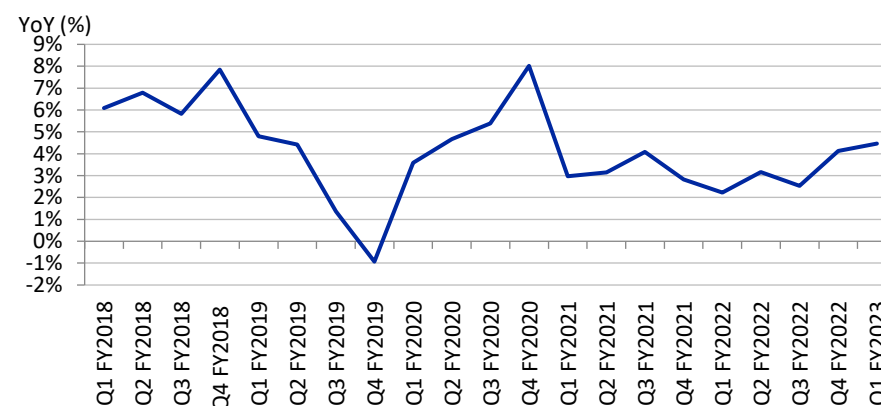
## ANNEXURE C

**EXHIBIT 16: Growth in GVA at Basic Prices (Constant 2011-12 Prices)**

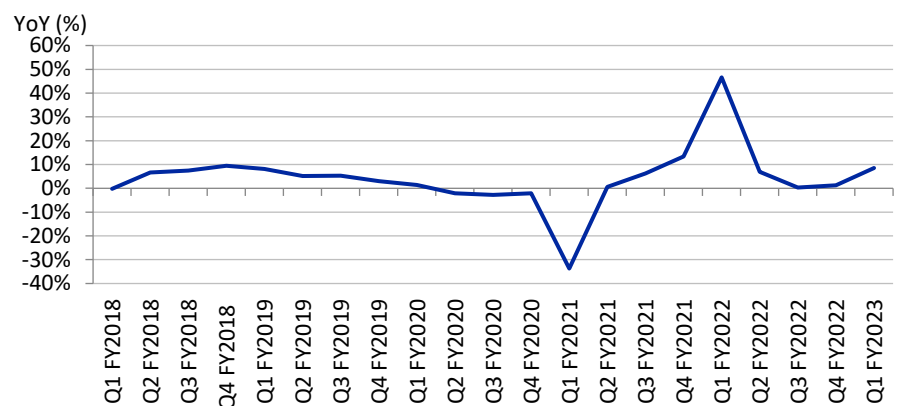


Source: NSO; CEIC; ICRA Research

**EXHIBIT 17: Growth in Agriculture, Forestry & Fishing (Constant 2011-12 Prices)**

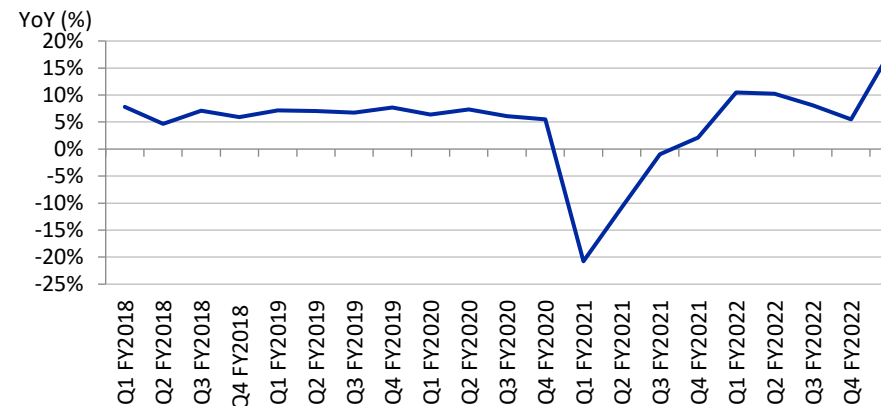


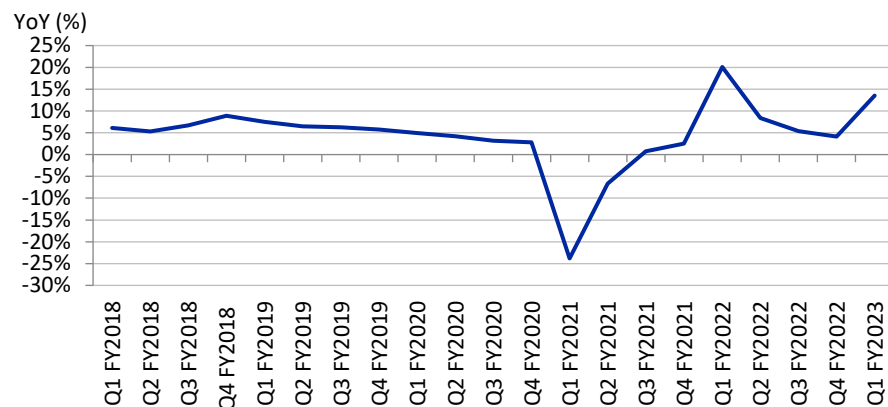
**EXHIBIT 18: Growth in Industry (Constant 2011-12 Prices)**



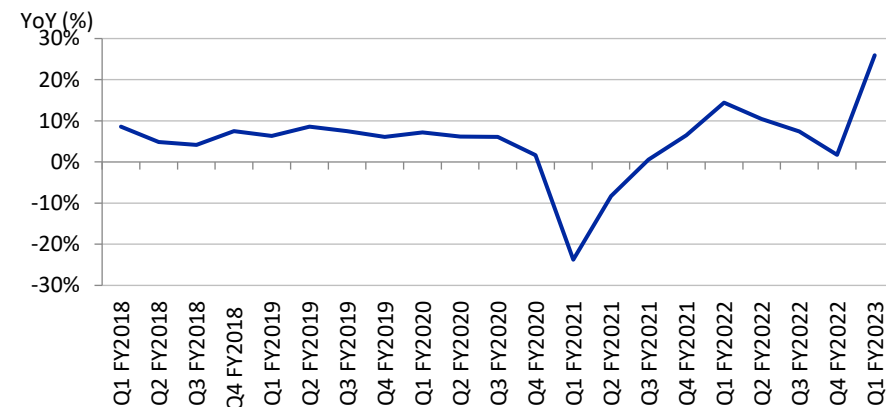
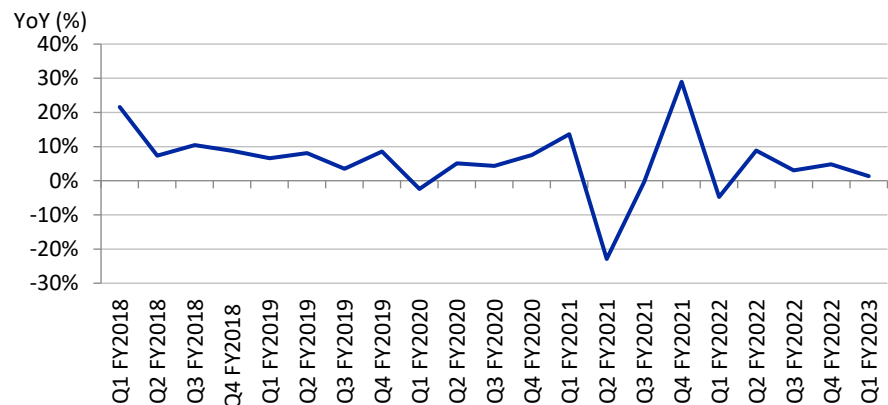
Source: NSO; CEIC; ICRA Research

**EXHIBIT 19: Growth in Services (Constant 2011-12 Prices)**

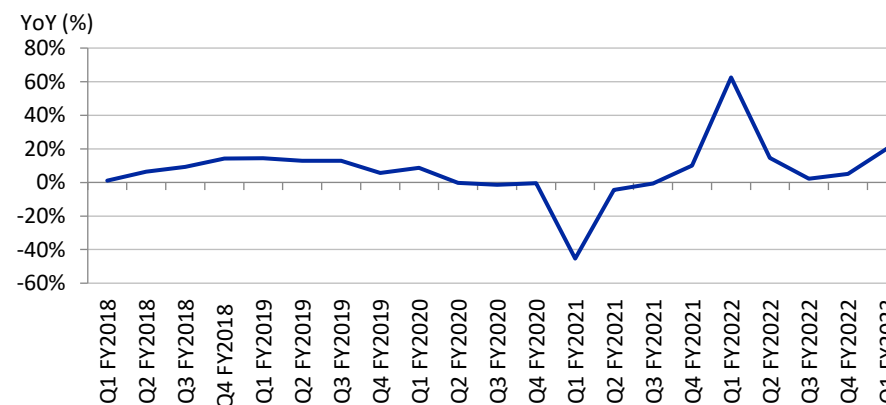


**EXHIBIT 20: Growth in GDP (Constant 2011-12 Prices)**


Source: NSO; CEIC; ICRA Research

**EXHIBIT 21: Growth in PFCE (Constant 2011-12 Prices)**

**EXHIBIT 22: Growth in GFCE (Constant 2011-12 Prices)**


Source: NSO; CEIC; ICRA Research

**EXHIBIT 23: Growth in GFCF (Constant 2011-12 Prices)**






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