



Positive growth surprise in  
Q4FY25; slowdown seen in  
FY26

31<sup>st</sup> May, 2025

- A. GDP and GVA growth numbers printed higher than our estimate of 7.0% and 6.7%, respectively, and consensus forecast of 6.8% and 6.3%, respectively, in Q4 FY25**
- *Apart from sequential growth recovery, GDP data led by statistical effects.*
  - *Spike in net indirect taxes growth in Q4 FY25, on favorable base effects led to rise in GDP-GVA wedge to 60bps from nearly flat levels in Q1-Q3 FY25.*
  - *Capex stayed the bigger growth driver vis-à-vis consumption with recovery in net exports also supporting growth momentum.*
- B. On an annual basis, with upward revision of Q3 FY25 growth number from 6.2% to 6.4%, the FY25 GDP growth clocked 6.5% versus our estimate of 6.3%**
- *Hence, the H1-H2 divide in growth numbers, even as growth slowed to 6.5% from 9.2% in FY24.*
  - *Recovery in H2 was led by backloaded government spending, Mahakumbh impact, cooling in GDP deflator on drop in food and commodity prices apart from statistical effects.*
  - *Nominal GDP growth has slipped to 9.8% in FY25 from 12% last fiscal, which is also signaled by slip in bank credit/deposit growth to 11%-10% versus 16%-13% in FY24*
- C. In terms of sectoral growth trends in Q4 FY25, the key drivers for upward surprise were agriculture & industry**
- *Agri growth remained strong at 5.4% versus 6.6% in Q3, thereby propelling rural demand, on bumper rabi crop output.*
  - *Industry growth was led by construction (on strong public capex & real estate activity) even as manufacturing GVA remained subdued despite recovery at sub-5%.*
  - *Despite significant Mahakumbh effects, trade GVA (6.0% vs 6.7% in Q3) saw downward momentum during the quarter in conjunction with slip in consumption growth.*

- *Public capex boost in H2 has also buoyed investment GDP growth apart from growth support from net exports (Q4 clocked C/A surplus as per our estimates).*

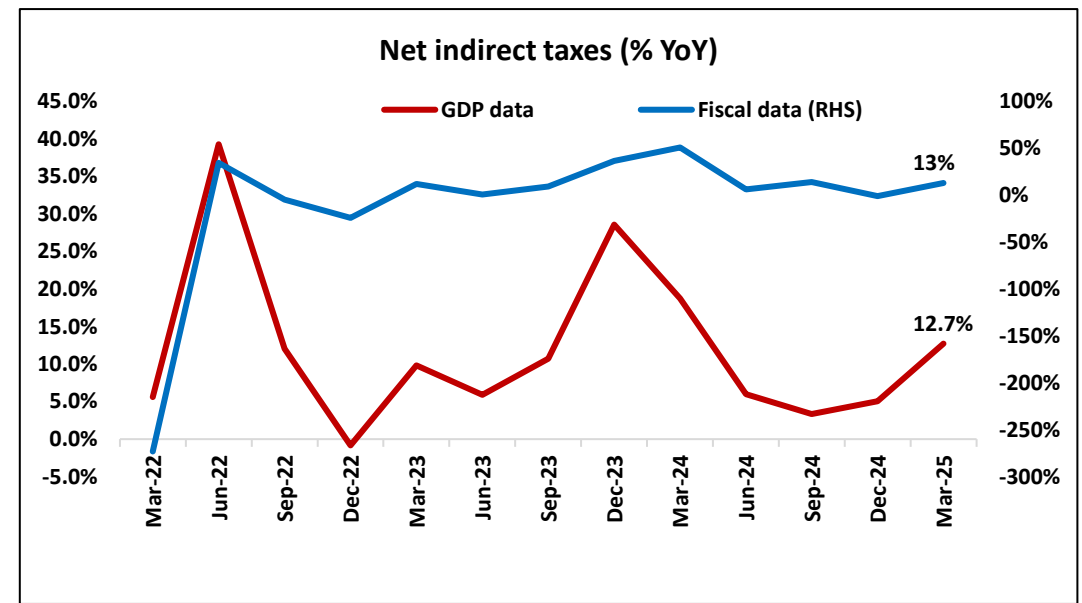
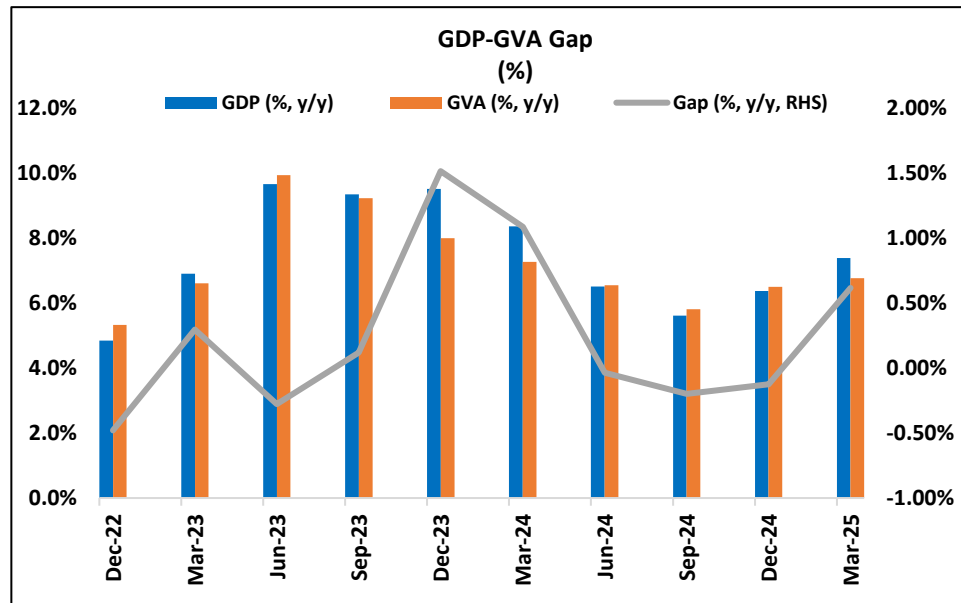
## **D. Going forward, for FY26, we revise our growth forecast to 6.3% from 6.0% previously, with GVA at 6.2% from 6.4%**

- *With relatively better than expected Q4 FY25 GDP numbers, we revise our FY26 growth forecast even as global recession worries may drive growth slowdown vs FY25, in our view.*
- *However, we believe there may be a switch in growth driver from capex to consumption during the year, on expectations of normal monsoon, income tax cuts etc.*
- *More importantly, global growth uncertainty may further defer broad based private capex recovery with public capex growth at 10% budgeted to be nearly similar to FY24.*
- *While we project growth contribution from net exports to turn adverse in FY26, with C/A deficit projected to widen to 1.2% of GDP, lower oil prices pose risk to our view.*
- *Statistical factors like GDP-GVA wedge may remain similar to FY25 at 10-20bps in FY26 as well, thereby making the Q4 FY25 spike fade away in the coming quarters*

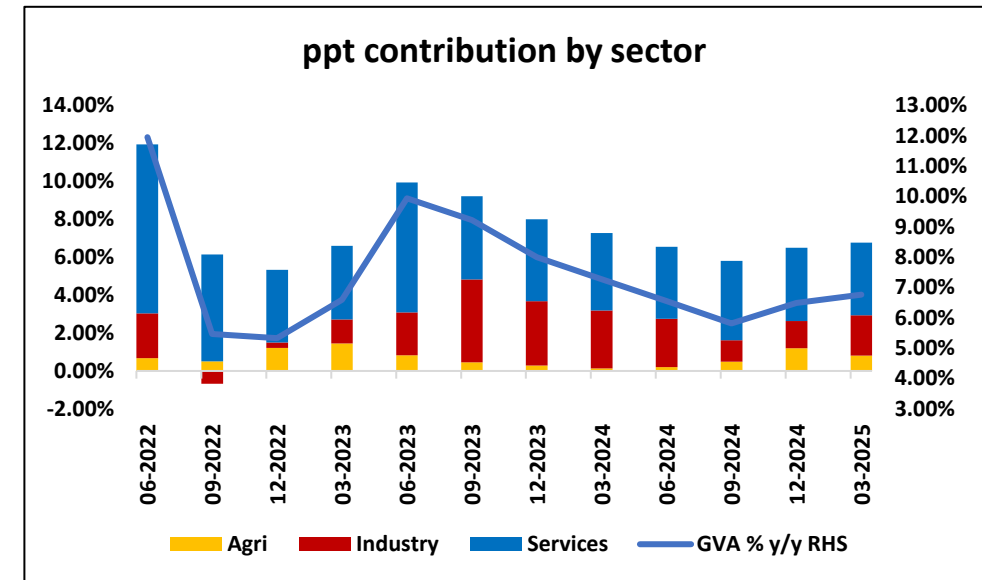
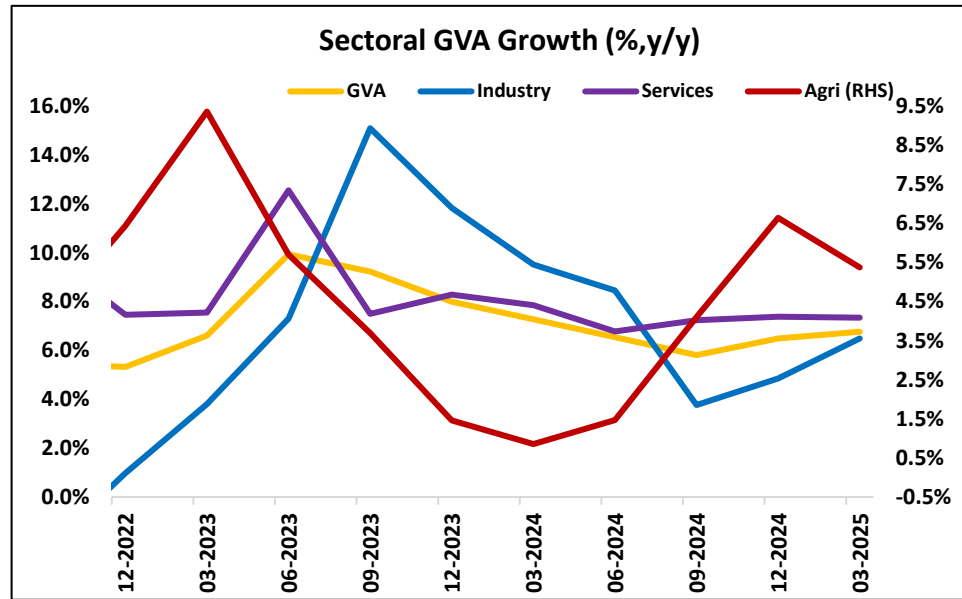
## **E. Monetary policy likely to continue with growth heavy lifting**

- *We believe that the underlying growth momentum stays weak amid global uncertainty and recession worries*
- *We continue to expect another 50bps rate cut equally divided between June and August*

# Q4FY25 GDP-GVA growth numbers beats our above-consensus estimates partly on statistical effects

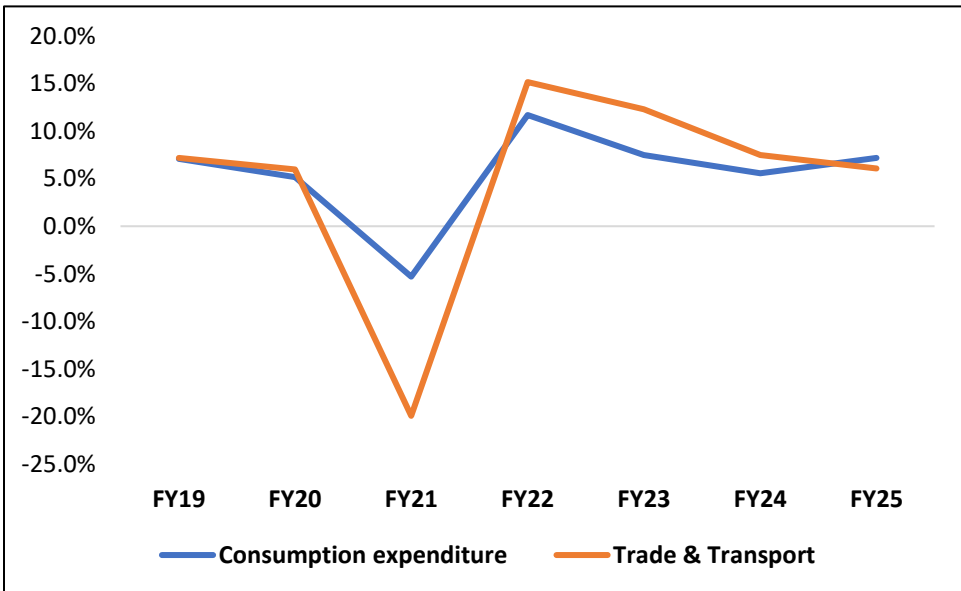
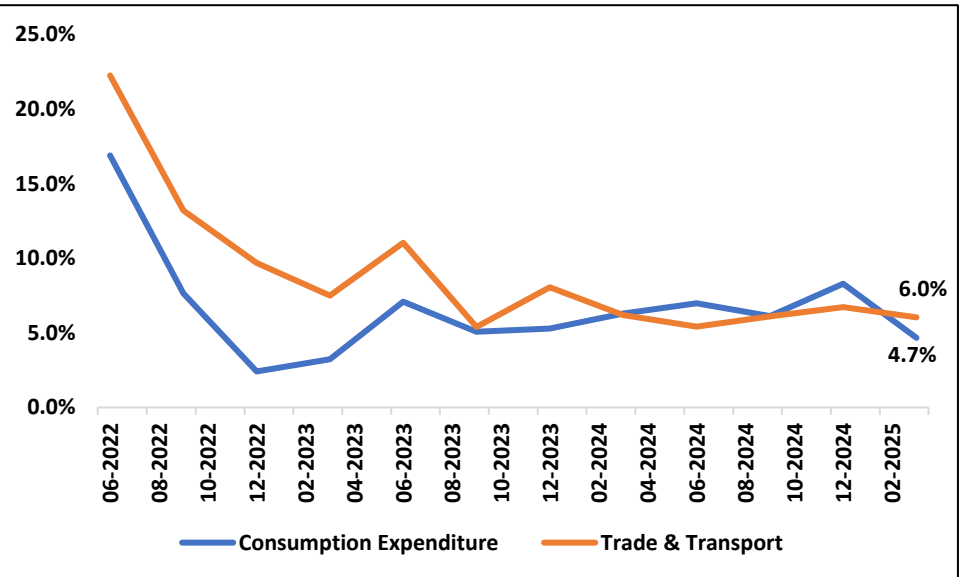


- GDP and GVA growth numbers printed higher than our above consensus forecast in Q4 FY25. GDP growth for Q4'FY25 has seen a pickup from 6.4% in Q3'FY25 (revised from previously 6.2%) to 7.4% which was above our projection by 40bps (Please refer our GDP preview report, [India's GDP growth likely clocked 7.0% in Q4 FY25](#)).
- GDP-GVA gap increased to 60bps from nearly flat levels in Q1-Q3 FY25. The gap has come down from 1.09% in Q4'FY24 but higher than average of -0.12% observed during Q1-Q3'FY25.
- Apart from sequential growth recovery, GDP data was led by statistical effects. As per revised estimates central government fiscal data, subsidies showed ~41% YoY contraction in Q4 FY25 (on base effects due to backloaded spending in Q4 FY24) even as indirect tax growth sustained in positive zone.



- The broad-based growth recovery in GVA was a pleasantly surprising factor in Q4'FY25. In terms of sequential growth pick-up, led by industry even as agri and services displayed strong growth momentum despite slowdown. Agri growth however, remained strong at 5.4% versus 6.6% in Q3, thereby supporting rural demand, on bumper rabi crop output.
- Industry growth was led by construction, on strong public capex growth & real estate activity, even as manufacturing GVA remained subdued despite sequential recovery at sub-5%.
- Services growth has eased from 7.4% to 7.3%, with trade & transport saw downward momentum during the quarter with growth going down from 6.7% in Q3'FY25 to 6.0% in Q4'FY25.

# Trade & consumption growth saw downward momentum in Q4'FY25



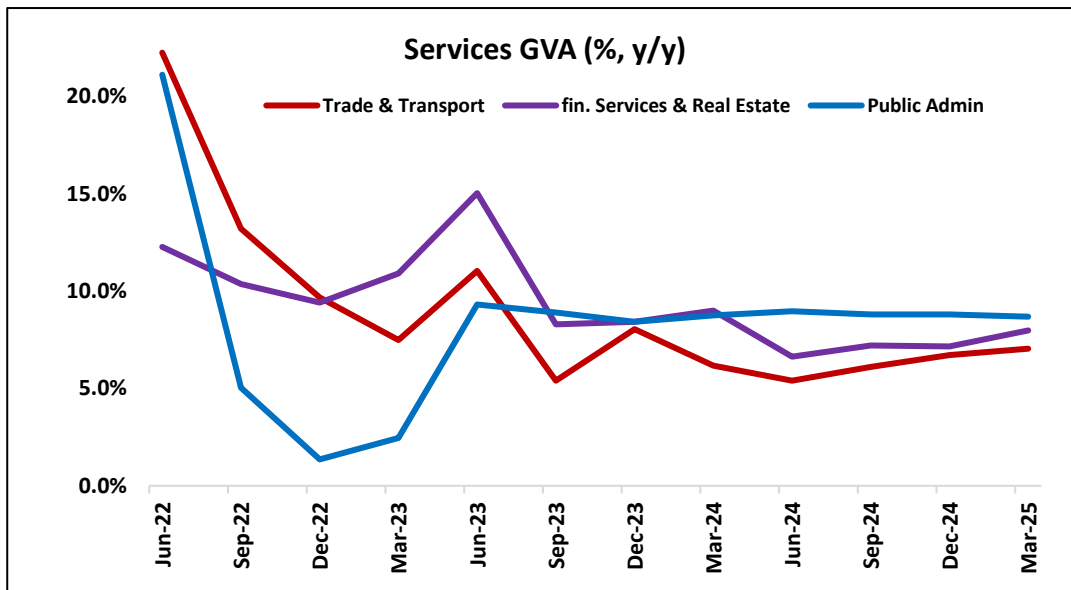
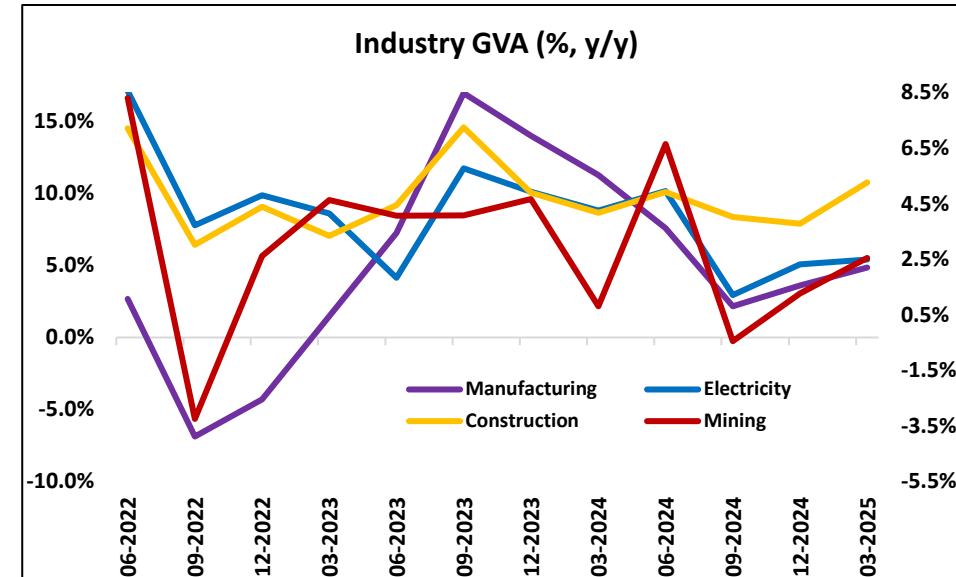
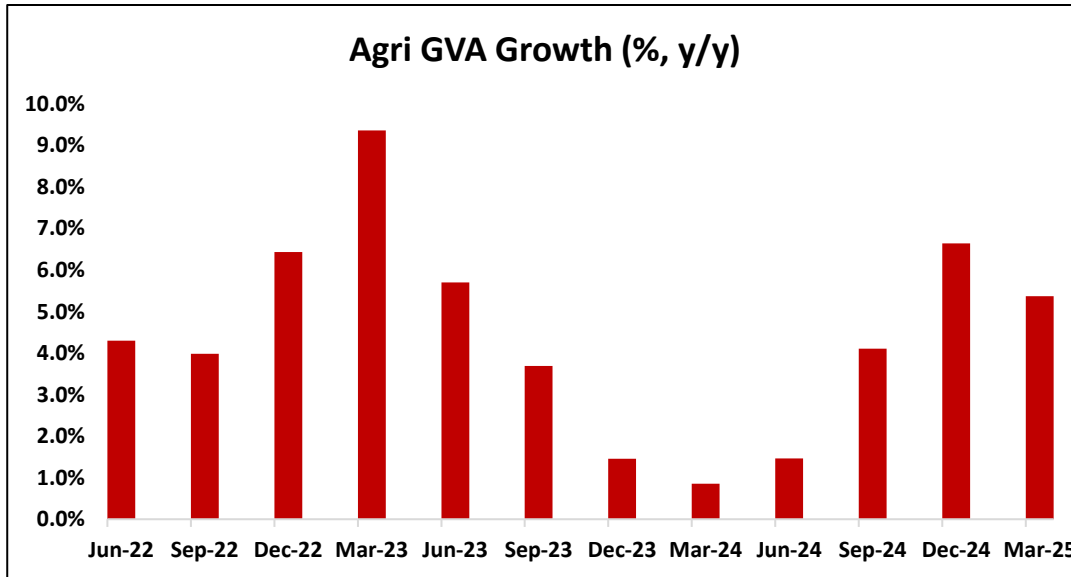
- Despite significant Mahakumbh effects, trade GVA (6.0% vs 6.7% in Q3) saw downward momentum during the quarter in conjunction with slip in consumption growth.
- This is a surprise to us though on an annual basis, the pickup in consumption growth back above 7% mark is a key positive and is likely led by recovering rural demand even as urban demand has come under slight pressure.
- Meanwhile, trade and transport GVA came under pressure in FY25 after pent up demand effects buoyed growth in post covid period (FY22/23).

# Lead services indicators present a mixed picture

Sector	Indicator	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
Trade, Hotels, Transport, Communications	Commercial Vehicle Sales (Qtrly)	3.3%			-11.0%			1.2%			1.8%		
	Railway Freight Traffic	1.5%	3.8%	10.1%	4.6%	-3.3%	0.0%	1.4%	1.4%	1.7%	0.0%	-3.0%	2.0%
	Port cargo Traffic	1.3%	3.7%	6.8%	6.0%	6.7%	5.9%	-3.4%	-5.0%	3.4%	6.2%	7.4%	13.3%
	domestic Air Cargo Traffic	0.3%	10.3%	10.3%	8.8%	0.6%	14.0%	8.9%	0.3%	4.3%	6.9%	-2.5%	4.9%
	International Air Cargo Traffic	16.2%	19.2%	19.6%	24.4%	20.7%	20.5%	18.4%	16.1%	10.5%	7.1%	-6.3%	3.3%
	Domestic Air Passenger Traffic	3.8%	5.9%	6.9%	7.6%	6.7%	7.4%	9.6%	13.8%	10.8%	14.1%	12.1%	9.9%
	International Air Passenger Traffic	16.8%	19.6%	11.3%	8.8%	11.1%	11.2%	10.3%	10.7%	9.0%	11.1%	7.7%	6.8%
	GST E-way Bills (Total)	14.5%	17.0%	16.3%	19.2%	12.9%	18.5%	16.9%	16.3%	17.6%	23.1%	14.7%	20.2%
	Hotel Occupancy	-1.6%	-3.2%	-3.1%	3.3%	0.0%	1.6%	-6.3%	11.1%	-0.2%	0.0%	0.0%	-9.6%
	Average Revenue per room	4.2%	1.5%	1.5%	7.7%	4.5%	4.2%	18.2%	10.6%	8.9%	9.5%	14.6%	11.0%
Tourist Arrivals	4.0%	-2.8%	5.7%	-1.3%	-4.2%	0.4%	-1.4%	-0.1%	-6.6%	2.0%	2.0%	0.0%	
Construction	Steel Consumption	12.1%	13.5%	19.5%	14.4%	10.0%	11.8%	8.9%	9.5%	5.2%	10.9%	10.9%	13.6%
	Cement Production	0.2%	-0.6%	1.8%	5.1%	-2.5%	7.6%	3.1%	13.1%	10.3%	14.3%	10.8%	12.2%
PMI Index#	Services	60.8	60.2	60.5	60.3	60.9	57.7	58.5	58.4	59.3	56.5	59	58.5

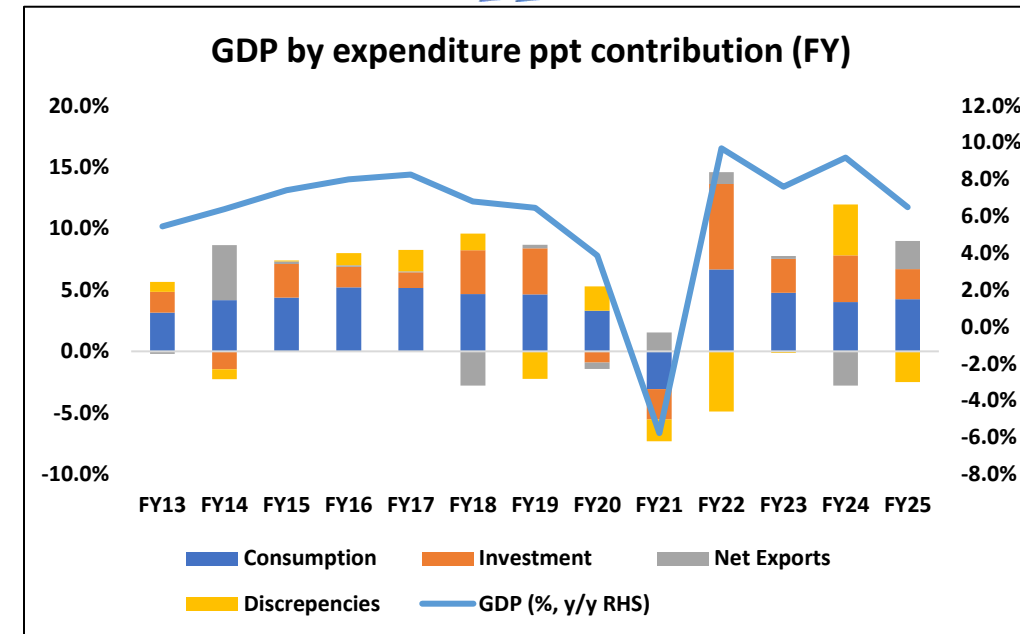
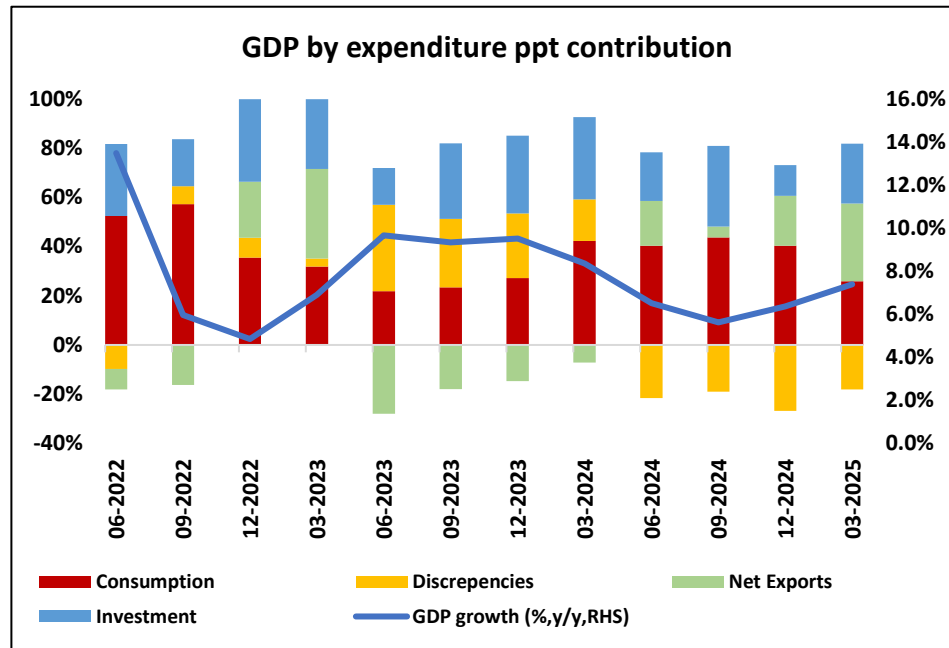
# levels

# GVA growth pick up in Q4 led by manufacturing and trade & transport along with agri



- Within Industry, construction was the lead performer with growth going up from 7.9% to 10.8%.
- Industry growth was led by construction on strong public capex & real estate activity.
- Manufacturing GVA has seen a pickup yet stays subdued at sub 5% levels
- In services, trade & transport slipped to 6.7% to 6.0% while fin services and public admin sub segments remained robust (7.8% and 8.7% respectively).

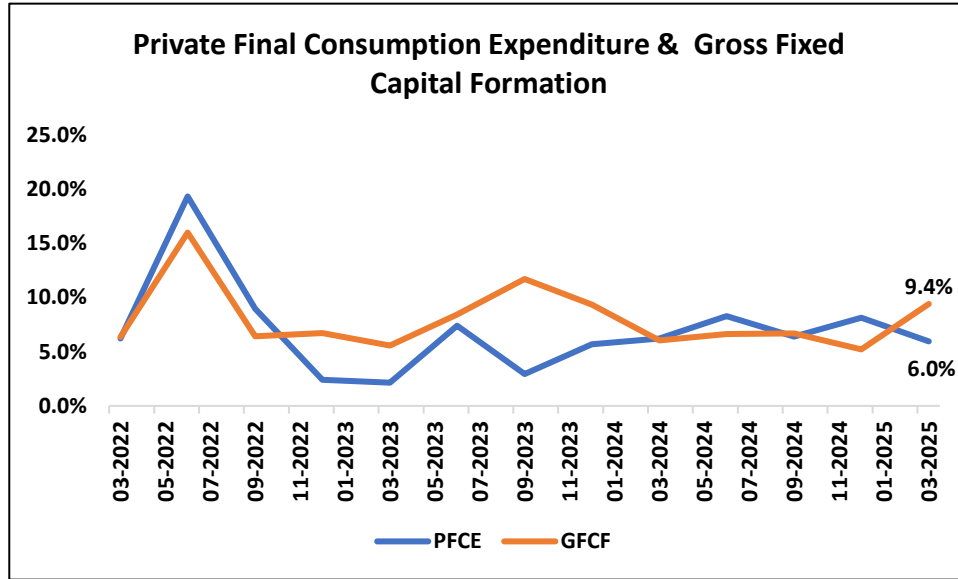
# Capex is a bigger growth driver in this qtr vis-a-vis consumption



Source: CEIC, UBI Research

- During the quarter, there was slip in consumption growth. Private final consumption expenditure (PFCE) declined from 8.1% in Q3'FY25 to 6.0% in Q4'FY25. This is likely led by urban demand coming under slight pressure, even as rural demand is recovering.
- Government final consumption expenditure (GFCE) has become negative from 9.3% to -1.8% sequentially. This is due to expenditure rationalization seen in revex during the quarter as it contracted by 5.1% in Q4 FY25.
- Gross fixed capital formation (GFCF) growth has improved from 5.2% to 9.4%, a six qtrs. high. Central government public capex saw close to 33% growth boost in Q4 FY25.
- Net exports have provided support to GDP growth by 3.7 percentage points (ppt) in Q4'FY25 as against 2.8 ppt in Q3'FY25. This is the fourth straight quarter when net exports have contributed to the GDP growth positively. Q4 clocked C/A surplus as per our estimates.

# Consumption continues to be a bigger growth driver in this qtr vis-a-vis capex

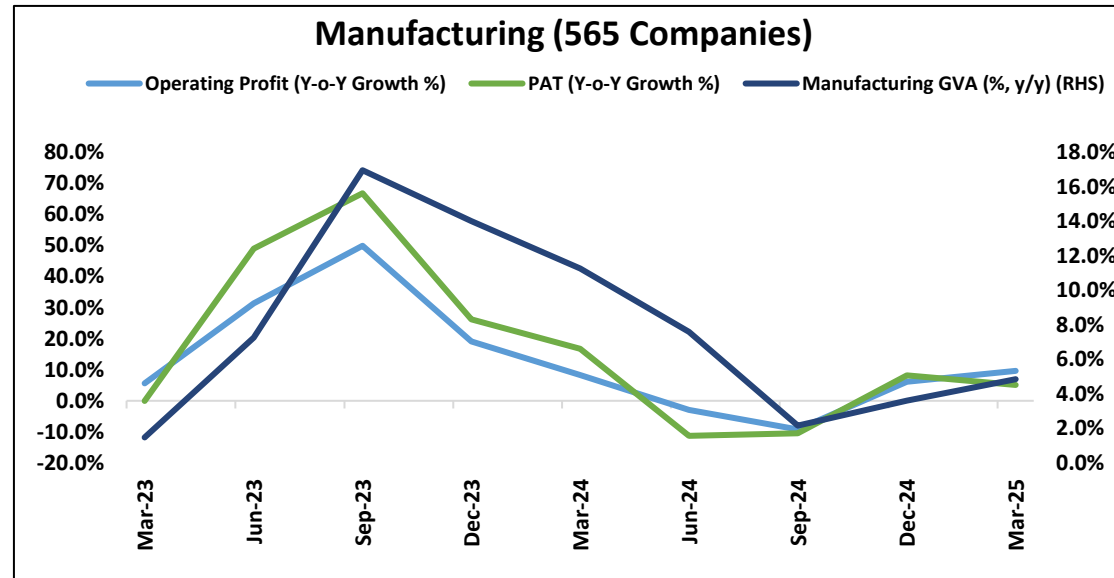


- Public capex boost in H2 has also buoyed investment GDP growth apart from growth support from net exports
- Gross fixed capital formation (GFCF) growth has improved from 5.2% to 9.4%, a six quarters high.
- Despite significant Mahakumbh effects, consumption expenditure, however, fell to 6.0% in Q4 FY25, which is a five-quarter low.

Sector	Indicator (YoY Gr%)	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
Urban demand	Passenger Vehicle sales	1.2	4.3	4.9	-2.0	-1.6	-0.4	1.1	4.4	11.4	3.5	3.7	3.7
	Two-wheeler sales	30.8	10.1	21.3	12.5	9.3	15.8	14.2	-1.1	-8.8	2.1	-9.0	11.4
Rural demand	Three-wheeler sales	16.1	14.4	12.3	5.1	8.0	6.7	-0.7	-1.3	3.5	8.6	4.7	10.5
	Tractor sales	-3.0	0.0	3.6	1.6	-5.8	3.7	22.4	-1.3	14.0	11.4	35.9	25.4

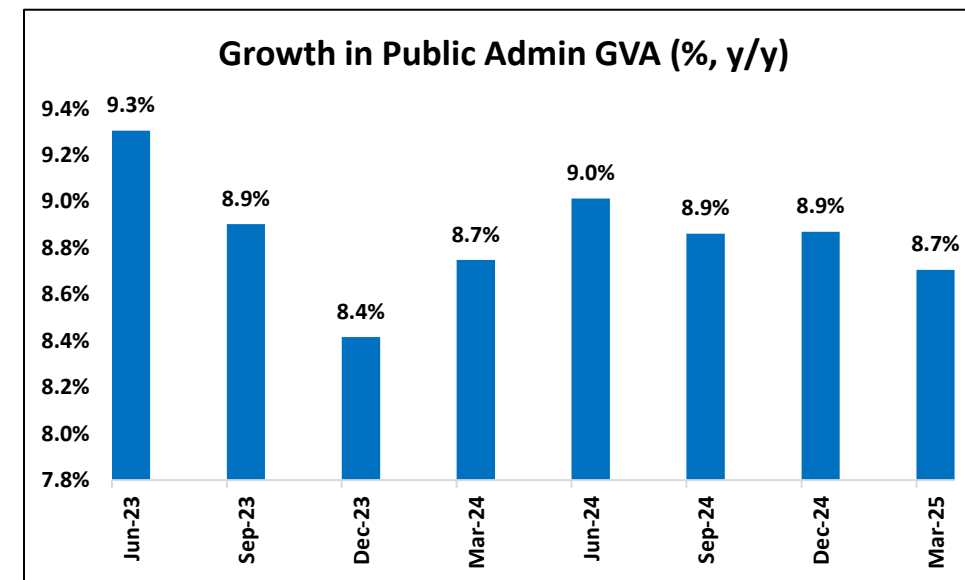
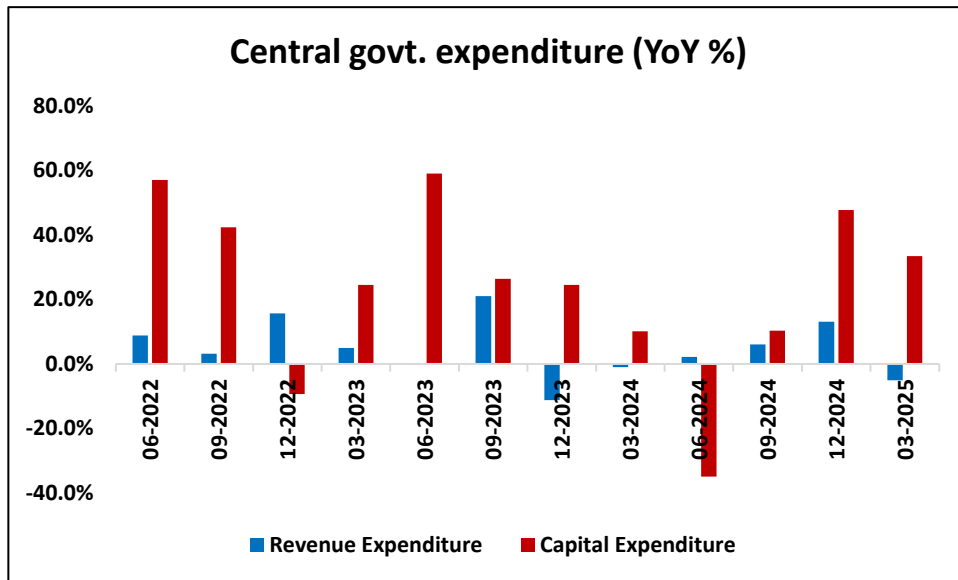
Source: SIAM, Tractor & Mechanisation Association, RBI

# Manufacturing growth pickup shown by improvement in corporate earnings

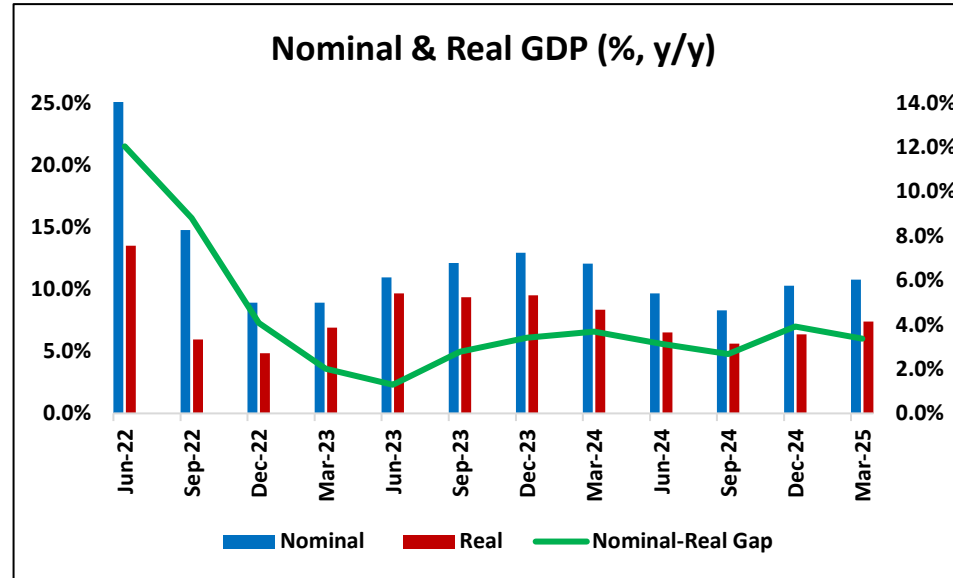


- During the quarter, looking at our data sample of 565 manufacturing companies, shows that profitability has improved.
- Sales growth remained subdued in Q4 FY25 vs Q3 and H1 FY25. Meanwhile operating profit (captured in manufacturing GVA) was up 15.1%. This is attributed to improvement in margins on falling costs (lower staff costs and slowdown in global commodity prices).

# Backloaded government spending pickup also supported growth prospects in H2FY25



- Backloaded government spending led by capex rather than revex, signifying better quality of spending. This is due to expenditure rationalization seen in revex during the quarter as it contracted by 5.1% in Q4 FY25. Revex ex interest payments also contracted by 5.1% in Q4.
- With revex lagging, public admin GVA growth eased to 8.8% in H2 versus 8.9% in H1.



- A pick-up in nominal growth in H2FY25 towards double digits (10.5%) from 9.0% in H1FY25 is reassuring of a pickup in growth momentum. Nominal growth in Q4'FY25 was at 10.8%.
- Interestingly, there is a H1-H2 divide in nominal and real GDP growth numbers. Nominal growth jumped to 10.5% in H2 versus ~9% in H1, while real growth was up ~6.9% in H2 versus 6.1% in H1.
- However, we see a slowdown in nominal GDP growth in FY26 to close to 9-9.5% with CPI inflation likely to stick to 4% handle from 4.6% while lower commodity prices may restrict WPI at close to 1%.

YoY grw %	FY24 (FRE)	FY25 (PE)	Q1FY25	Q2FY25	Q3FY25	Q4 FY25
<b>GDP</b>	<b>9.2%</b>	<b>6.5%</b>	<b>6.5%</b>	<b>5.6%</b>	<b>6.4%</b>	<b>7.4%</b>
<b>GVA</b>	<b>8.6%</b>	<b>6.4%</b>	<b>6.5%</b>	<b>5.8%</b>	<b>6.5%</b>	<b>6.8%</b>
<b>Agri</b>	<b>2.7%</b>	<b>4.4%</b>	<b>1.5%</b>	<b>4.1%</b>	<b>6.6%</b>	<b>5.4%</b>
<b>Industry</b>	<b>10.8%</b>	<b>5.9%</b>	<b>8.5%</b>	<b>3.8%</b>	<b>4.8%</b>	<b>6.5%</b>
<i><b>o/w Manufacturing</b></i>	<i><b>12.3%</b></i>	<i><b>4.6%</b></i>	<i><b>7.6%</b></i>	<i><b>2.2%</b></i>	<i><b>3.6%</b></i>	<i><b>4.8%</b></i>
<i><b>Construction</b></i>	<i><b>8.6%</b></i>	<i><b>9.3%</b></i>	<i><b>10.1%</b></i>	<i><b>8.4%</b></i>	<i><b>7.9%</b></i>	<i><b>10.8%</b></i>
<b>Services</b>	<b>9.0%</b>	<b>7.2%</b>	<b>6.8%</b>	<b>7.2%</b>	<b>7.4%</b>	<b>7.3%</b>
<i><b>o/w Trade</b></i>	<i><b>7.5%</b></i>	<i><b>6.1%</b></i>	<i><b>5.4%</b></i>	<i><b>6.1%</b></i>	<i><b>6.7%</b></i>	<i><b>6.0%</b></i>
<i><b>Financing and real estate</b></i>	<i><b>8.8%</b></i>	<i><b>7.2%</b></i>	<i><b>6.6%</b></i>	<i><b>7.2%</b></i>	<i><b>7.1%</b></i>	<i><b>7.8%</b></i>
<i><b>Public administration</b></i>	<i><b>10.3%</b></i>	<i><b>8.9%</b></i>	<i><b>9.0%</b></i>	<i><b>8.9%</b></i>	<i><b>8.9%</b></i>	<i><b>8.7%</b></i>
<b>Pvt consumption expenditure</b>	<b>5.6%</b>	<b>7.2%</b>	<b>8.3%</b>	<b>6.4%</b>	<b>8.1%</b>	<b>6.0%</b>
<b>GFCF</b>	<b>8.8%</b>	<b>7.1%</b>	<b>6.7%</b>	<b>6.7%</b>	<b>5.2%</b>	<b>9.4%</b>
<b>Nominal GDP</b>	<b>12.0%</b>	<b>9.8%</b>	<b>9.7%</b>	<b>8.3%</b>	<b>10.3%</b>	<b>10.8%</b>
<b>Real GVA ex agriculture ex govt</b>	<b>9.8%</b>	<b>6.4%</b>	<b>7.1%</b>	<b>5.6%</b>	<b>6.0%</b>	<b>6.7%</b>

FRE: First Revised Estimates; PE : Provisional Estimates

# High frequency lead indicators showed a mixed picture

Industrial Sector	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
IIP (YoY Gr%)	5.2	6.3	4.9	5.0	0.0	3.2	3.7	5.0	3.7	5.2	2.7	3.9
Mining (YoY Gr%)	6.8	6.6	10.3	3.8	-4.3	0.2	0.9	1.9	2.7	4.4	1.6	1.2
Manufacturing (YoY Gr%)	4.2	5.1	3.5	4.7	1.2	4.0	4.4	5.5	3.7	5.8	2.8	4.0
Electricity (YoY Gr%)	10.2	13.7	8.6	7.9	-3.7	0.5	2.0	4.4	6.2	2.4	3.6	7.5
Core Infra Growth (YoY Gr%)	6.9	6.9	5.0	6.3	-1.5	2.4	3.8	5.8	5.1	5.1	3.4	4.6
Cement Production (YoY Gr%)	0.2	-0.6	1.8	5.1	-2.5	7.6	3.1	13.1	10.3	14.3	10.8	12.2
Steel Production (YoY Gr%)	9.8	8.9	6.3	7.0	4.1	1.8	5.7	10.5	7.3	4.7	6.9	9.3
Capital Goods Production (YoY Gr%)	2.8	2.6	3.6	11.7	0.0	3.5	2.9	8.9	10.5	10.2	8.2	3.6
PMI Manufacturing	58.8	57.5	58.3	58.1	57.5	56.5	57.5	56.5	56.4	57.7	56.3	58.1
PMI Services	60.8	60.2	60.5	60.3	60.9	57.7	58.5	58.4	59.3	56.5	59.0	58.5
Banking Sector	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
Bank Credit (YoY Gr%)	19.0	19.8	17.4	13.7	13.6	13.0	11.5	10.6	11.2	11.4	11.0	11.0
Bank Deposits (YoY Gr%)	12.6	14.0	11.1	10.6	12.7	10.4	11.5	11.2	9.8	12.1	12.0	10.3
C-D Ratio (%)	79.5	79.6	79.3	79.3	78.4	79.2	79.4	79.5	80.4	80.3	80.4	80.8
Weighted Average Lending Rate Fresh Rupee Loans (%)	9.6	9.4	9.3	9.4	9.4	9.4	9.5	9.4	9.3	9.3	9.4	9.4
Weighted Average Deposit Rate (%)	6.9	6.9	6.9	6.9	6.9	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Inflation	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
CPI (Y-o-Y Gr%)	4.8	4.8	5.1	3.6	3.7	5.5	6.2	5.5	5.2	4.3	3.6	3.3
Core CPI (Y-o-Y Gr%)	3.2	3.1	3.1	3.4	3.4	3.5	3.7	3.6	3.6	3.7	4.0	4.1
WPI (Y-o-Y Gr%)	1.2	2.7	3.4	2.1	1.2	1.9	2.8	2.2	2.6	2.5	2.4	2.0
Consumer	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
Consumer Durables (YoY Gr%)	10.5	12.6	8.8	8.2	5.4	6.3	5.5	14.1	8.1	7.1	3.7	6.9
Consumer Non Durables (YoY Gr%)	-2.5	2.8	-1.0	-4.2	-4.4	2.2	2.8	0.6	-7.1	0.1	-2.1	-4.0
Unemployment (YoY Gr%)	8.1	7.0	9.2	7.9	8.5	7.8	8.8	8.8	9.8	10.8	11.8	12.8
Trade	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
Merchandise Export (YoY Gr%)	2.0	13.3	2.4	0.6	-9.9	-0.3	16.6	-5.3	-1.5	-2.6	-11.1	0.7
Merchandise Import (YoY Gr%)	11.1	7.3	4.6	11.2	10.0	7.8	1.9	16.1	2.3	10.3	-16.3	11.4
Service Export (YoY Gr%)	17.1	9.7	3.2	16.6	5.7	14.6	22.7	14.2	16.9	12.0	11.6	18.6
Service Import (YoY Gr%)	20.0	6.2	-3.1	16.0	9.1	13.5	28.0	26.1	13.9	12.6	-4.8	5.3
Logistics	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
E Way bill generated (Nos. in Cr)	9.7	10.3	10.0	10.5	10.5	10.9	11.7	10.2	11.2	11.8	11.2	12.5
Air Freight (YoY Gr%)	10.0	15.6	15.9	18.1	12.5	18.0	14.5	9.7	8.0	7.0	-4.9	3.8
Fiscal	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
GST Collection (YoY Gr%)	12.4	10.0	7.6	10.3	10.0	6.5	8.9	8.5	7.3	12.3	9.1	9.9
Govt. Expenditure (YoY Gr%)	39.3	-37.9	-18.4	0.1	20.9	2.6	31.7	3.6	22.1	12.4	-17.7	9.7

# Thank You !

## RESEARCH TEAM

KANIKA PASRICHA

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SUNEESH K

---

RAJESH RANJAN

---

NIDHI ARORA

---

AMIT SRIVASTAVA

---

JOVANA LUKE GEORGE

---

DHIRAJ KUMAR

---



AKASH DEB

---

ROHIT YARMAL

---

SHREYAS BIDARKAR

---

S. JAYALAXMI

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