SBI RESEARCH
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GDP SLUGGISHNESS MIRRORING TOUGH TIMES AHEAD WITH A VOLATILE WEST LIKELY TO TRUMP THE GLOBAL SOUTH THROUGH TARIFF WARS; CREDIT OFFTAKE, CORPORATE MARGINS TAKE A SIGNIFICANT BEATING: FY25 GDP GROWTH RATE LIKELY IN 6-6.5% RANGE

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India story appears to take a brief pause, some kind of unexpected hiatus, with economy (real GDP) growing by a mere 5.4% in Q2 FY25, chiefly dented by sluggish growth in industry. Industry decelerated to 6-quarters low to 3.6% in Q2 due to broad based sluggishness. While Services sector growth in Q2 at 7.1% is a tad higher when compared to last year (6.0%), it is almost flat as compared to previous quarter (7.2%). Agriculture, the most consistent sector since pandemic, grew by 3.5% in Q2 (Q2 FY24: 1.7%) but proved unable to push the holistic growth as its weighted contribution is only 40 bps. The GVA grew by 5.6% and Nominal GDP grew by 8% in Q2.

With 6.0% real GDP growth in H1 FY25, the overall growth for full fiscal would be less than 6.5% (assuming 6.5-6.8% growth in H2). This manufacturing led slowdown gives a sketchy reading when juxtaposed against non-impulsive credit growth. However, one must be sanguine to look at incremental and not year on year numbers that could throw up a misleading narrative altogether. The slouch in EBIDTA has been examined in detail by us to gauge the depth, as also width of this tectonic shift (in GDP). Also, Capital expenditure growth remains constrained for states because of tied conditionalities, while consumption growth of rural households is holding but unable to match and contribute much to Urban due to lesser share in value.

In actual rupee terms the incremental growth in industry comes to merely Rs 42,515 crore in Q2 FY25 over Q2 FY24 as compared to whopping Rs 1.4 lakh crore growth in preceding corresponding period, indicating a hit of almost Rs 1 lakh crore in incremental terms in overall industry. Around 4000 Corporates in listed space reported revenue growth of only 6.13% while EBIDTA and profit after tax (PAT) growth of around 7% and 9.4% respectively in Q2FY25 as compared to Q2FY24.

Further, Corporate ex BFSI represented by more than 3000 listed entities reported revenue and PAT growth of 3.9% and 6% respectively, in Q2FY25 as compared to Q2FY24. **However, ex-BFSI, corporates reported negative EBIDTA growth of around 1.5% in Q2FY25 as compared to 41% growth in Q2FY24.** Major sector that contributed to the negative growth of 1.5% in EBIDTA in Q2FY25 include Refineries, Cement, Power Generation and Distribution, Paints/Varnish, Tyres, Air Transport, Paper, Textile etc. **Overall EBIDTA margin also declined by 79 bps i.e. from 15.19% in Q2FY24 to 14.40% in Q2FY25.**

While taking a deep dive into the numbers, we noted major sectors i.e. Automobile, Cement, Power Generation and Distribution, Tyres etc. reporting lower to negative EBIDTA growth in Q2FY25 as compared to impressive double-digit growth in Q2FY24, while the employee expenses continue to grow positively sans Refineries, which could possibly be the main dragger to the overall GDP growth numbers.

Further, corporate GVA, as measured by EBIDTA plus Employee Expenses also recorded growth of 6.64% in Q2FY25 as compared to around 47% in Q2FY24. Q2FY25 performance seems largely driven by **weak performance in commodity-oriented sectors, slowing consumption, and moderation in domestic cyclical sectors like Automobile sector** which too reported marginal growth of 4% in EBIDTA as compared to whopping 55% growth last year driven by low input cost and improved realization backed by strong demand.

The real private consumption has held the ground with growth of 6.0% almost double of the growth rate in Q2 of FY24. The government consumption has not picked up after the budget as was natural since monsoons slow the public works. This reflects in real government consumption growth of 4.4% and capital formation real growth of 5.4%. The steadily rising rural expenditure over past few quarters reflects resilience and is driving higher rural demand.

Further, During H1 FY25, the centre's capital expenditure is merely 37.3% of full year budget estimates, which is almost 10 percentage points down from the average H1 of FY19-FY24 (47.7%). The situation of states is more precarious, our analysis of capital expenditure of states for H1 FY25 indicate that out of 17 major states only five states exhibited increase in expenditure in H1 FY25.

As per the latest data, during the current year so far (till 15 Nov 2024), ASCBs incremental credit slowed to Rs 9.3 lakh crore (YTD 5.3%) and deposits to Rs 13.7 lakh crore (YTD 6.7%), compared to last year growth Rs 19.4 lakh crore (YTD 14.2%) and Rs 16.0 lakh crore (YTD 8.9%). Clearly, credit growth needs new boosters to augment the economy.

GDP EXPANDS BY MERELY 5.4% IN Q2 FY25

- Against all expectations, India's economy (real GDP) grew by merely 5.4% in Q2 FY25 on the back of sluggish growth in industry. The GVA grew by 5.6% and Nominal GDP grew by 8% in Q2. Core GVA which was higher than the GVA in previous 5 quarters is below the GVA at 5.3% in Q2 FY25.
- Agriculture, the most consistent sector since pandemic, grew by 3.5% in Q2 (Q2 FY24: 1.7%) but unable to push the growth as weighted contribution is only 40 bps.
- After 7-quarters, GDP growth plunged below 6.0% mark in Q2 FY25 primarily owing to 3.6% growth in industry sector. In actual rupee terms the incremental growth in industry is merely Rs 42,515 crore in Q2 FY25 over Q2 FY24 as compared to whopping Rs 1.4 lakh crore growth in preceding corresponding period. This indicate a hit of almost Rs 1 lakh crore in incremental terms in overall industry.
- Services sector growth in Q2 at 7.1% while showing smart growth compared to last year (6.0%) is almost flat as compared to previous quarter (7.2%).
- **With 6.0% real GDP growth in H1 FY25, the overall growth for full fiscal would be less than 6.5% (assuming 6.5-6.8% growth in H2).**

CORPORATE RESULT Q2FY25 - MANUFACTURING DRAG THE SHOW

- Around 4000 Corporate in listed space reported revenue growth of 6.13% while EBIDTA and profit after tax (PAT) growth of around 7% and 9.4% respectively in Q2FY25 as compared to Q2FY24.
- Further, Corporate ex BFSI represented by more than 3000 listed entities reported revenue and PAT growth of 3.9% and 6% respectively, in Q2FY25 as compared to Q2FY24.
- **However, ex-BFSI, corporates reported negative EBIDTA growth of around 1.5% in Q2FY25 as compared to 41% growth in Q2FY24.**
- Major sector contributed to the negative growth of 1.5% in EBIDTA in Q2FY25 includes Refineries, Cement, Power Generation and Distribution, Paints/ Varnish, Tyres, Air Transport, Paper, Textile etc. Overall EBIDTA margin also declined by 79 bps i.e. from 15.19% in Q2FY24 to 14.40% in Q2FY25.

GVA and GDP at Constant Price by Economic Activity (YoY%)

Sectors	FY24					FY25	
	Q1	Q2	Q3	Q4	Annual	Q1	Q2
Agriculture	**3.7**	**1.7**	**0.4**	**0.6**	**1.4**	**2.0**	**3.5**
Industry	**6.0**	**13.6**	**10.5**	**8.4**	**9.5**	**8.3**	**3.6**
Mining & quarrying	7.0	11.1	7.5	4.3	7.1	7.2	-0.1
Manufacturing	5.0	14.3	11.5	8.9	9.9	7.0	2.2
Electricity, gas, water supply & other utility services	3.2	10.5	9.0	7.7	7.5	10.4	3.3
Construction	8.6	13.6	9.6	8.7	9.9	10.5	7.7
Services	**10.7**	**6.0**	**7.1**	**6.7**	**7.6**	**7.2**	**7.1**
Trade, hotels, transport, communication & services related to broadcasting	9.7	4.5	6.9	5.1	6.4	5.7	6.0
Financial, real estate & professional service	12.6	6.2	7.0	7.6	8.4	7.1	6.7
Public administration, defence and Other Services	8.3	7.7	7.5	7.8	7.8	9.5	9.2
Total GVA at Basic Price	**8.3**	**7.7**	**6.8**	**6.3**	**7.2**	**6.8**	**5.6**
GDP	**8.2**	**8.1**	**8.6**	**7.8**	**8.2**	**6.7**	**5.4**

Source: NSO & SBI Research

Industry Sector (in Rs crore) at constant prices

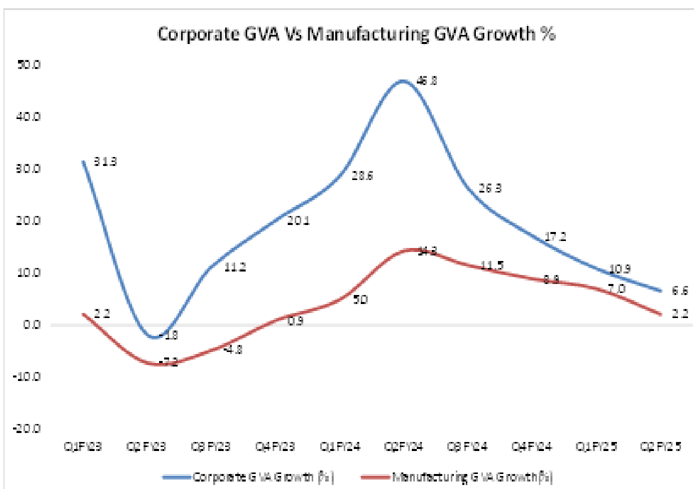
Sector	Q2			Chg (FY24 over FY23)	Chg (FY25 over FY24)
	FY23	FY24	FY25		
Mining & quarrying	62,064	68,934	68,861	6,870	-73
Manufacturing	6,01,225	6,87,183	7,01,961	85,958	14,778
Electricity, gas, water supply & other utility services	88,379	97,686	1,00,922	9,307	3,236
Construction	2,81,869	3,20,067	3,44,640	38,198	24,573
Industry Total	**10,33,537**	**11,73,870**	**12,16,384**	**1,40,333**	**42,514**

Source: NSO; SBI Research

Growth in EBIDTA and Employee Expenses and weighted contribution in EBIDTA growth Q2FY25

Sector	EBIDTA		Employee Expenses		Weighted contribution in EBIDTA growth %
	Q2FY25	Q2FY24	Q2FY25	Q2FY24	
Automobile	4	55	8	14	0.2
Cement	-34	91	5	11	-0.7
Paint & Varnish	-30	37	13	18	-0.2
Power Generation & Distribution	-6	23	3	2	-0.5
Refineries	-64	450	-3	27	-12.6
Tyres	-19	91	3	15	-0.2

Source: Cline; SBI Research



- While taking a deep dive into the numbers, we noted major sectors i.e. Automobile, Cement, Power Generation and Distribution, Tyres etc. reported lower to negative EBIDTA growth in Q2FY25 as compared to impressive double-digit growth in Q2FY24 (see table), while the employee expenses continue to grow positively sans Refineries, could be the main dragger to the overall GDP growth numbers.
- **Further, corporate GVA, as measured by EBIDTA plus Employee Expenses also recorded growth of 6.64% in Q2FY25 as compared to around 47% in Q2FY24.**
- For example, Refinery companies reported negative EBIDTA growth in Q2FY25 over higher expenses and weak refining margins. The cost of raw material consumed or the input cost increased by around 5% i.e. from 54.9% in Q2FY24 to around 60% in Q2FY25.
- Similarly in Cement sector also the total input expenditure including raw material cost increased by around 5% in Q2FY25 as compared to the same quarter previous year coupled with continuous price drop.
- Q2FY25 performance largely driven by weak performance in commodity-oriented sectors, slowing consumption, and moderation in domestic cyclical sectors like Automobile sector which too reported marginal growth of 4% in EBIDTA as compared to whopping 55% growth last year driven by low input cost and improved realisation backed by strong demand.

EXPENDITURE SIDE GDP

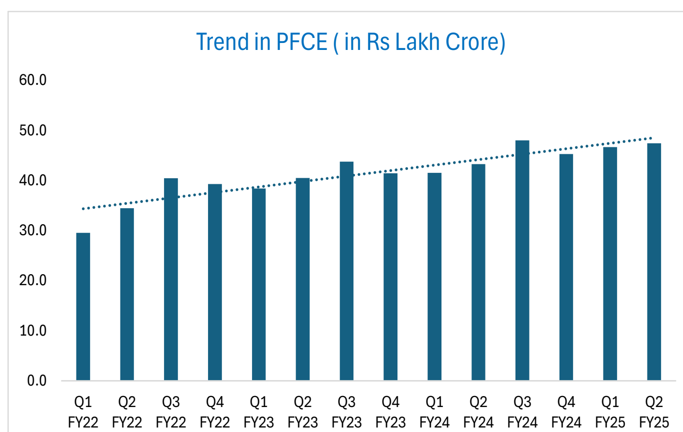
- The general demand shows a trend which is consistent with what was happening in Q1 FY25 but with some changes owing to seasonal factors in Q2 covered later.
- The real private consumption has held the ground with growth of 6.0%, almost double of the growth rate in Q2 of FY24. The government consumption has not picked up after the budget as was natural since monsoons slow the public works. This reflects in real government consumption growth of 4.4% and capital formation real growth of 5.4%.
- The expenditure head that has seen sharpest increase is valuables registering a growth of 14.4% compared to contraction in Q2 FY24 on account of high investment demand for gold due to sharp rise in prices.

Corporate Results Key Parameters

Qtr.	Rs lakh crore			EBIDTA Margin %	Growth % (YoY)		
	Net Sales	EBIDTA	PAT		Net Sales	EBIDTA	PAT
Q2FY22	16.33	2.69	1.75	16.5%	38	35	56
Q3FY22	18.09	2.76	1.63	15.2%	32	18	28
Q4FY22	20.46	2.93	2.00	14.3%	26	7	15
Q1FY23	21.99	2.77	1.51	12.6%	51	7	11
Q2FY23	21.80	2.34	1.37	10.7%	28	-14	-23
Q3FY23	21.77	2.66	1.45	12.2%	15	-9	-16
Q4FY23	22.30	2.91	1.93	13.1%	9	-1	-3
Q1FY24	21.51	3.40	2.01	15.8%	-2	23	33
Q2FY24	22.12	3.36	1.97	15.2%	-0.3	41	42
Q3FY24	22.48	3.36	2.06	15.0%	3.3	26	42
Q4FY24	23.86	3.40	2.04	14.3%	5.2	14	3
Q1FY25	22.99	3.44	2.11	15.0%	5.7	-1	3
Q2FY25	22.98	3.31	2.09	14.4%	3.9	-1.5	6

Source: SBI Research; Cline; around 3000 listed entities ex BFSI

GDP Expenditure Side

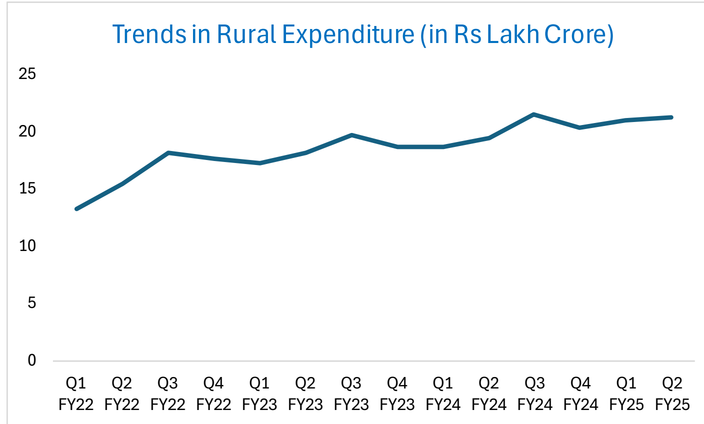


Source: SBI Research

- The exports have slowed on expected line with growth rates at 2.8% in Q2 FY25. The imports have contracted by 2.9% in Q2 FY25 in real terms indicating slowdown in capital formation owing to seasonal reduction in intermediate demand and reduction in consumption of petroleum products.
- The expenditure side trends were impacted by high discrepancy component. Although all expenditure heads, barring valuables, show sequential decline, the overall conclusion warrants caution in concluding that demand has weaned. A part of the reason for the unexpected drop in GVA was the impact of La Nino in Q2 and above-normal August rainfall which impacted the estimates for the full quarter. The shift in weather parameters resulted in exceptional low demand for power from agriculture, a shift in production towards hydroelectricity and a drop in output of coal (the high frequency indicator for quarterly estimates of mining) due to waterlogging.
- **Rural Expenditure**: Taking 45% contribution of rural economy in total income share, we calculated that Rural PCFE witnessed a 10% rise in Q2 FY25 over same quarter previous year. The steadily rising rural expenditure over past few quarters reflects resilience and is driving higher rural demand.

CENTRE AND STATES' CAPITAL EXPENDITURE IS AT LOWER SIDE IN H1 FY25

- During H1 FY25, the centre's capital expenditure is merely 37.3% of full year budget estimates, which is almost 10 percentage points down from the average H1 of FY19-FY24 (47.7%).
- The situation of states is more precarious, our analysis of capital expenditure of states for H1 FY25 indicate that out of 17 major states only five states exhibited increase in expenditure in H1 FY25 as compared to H1 FY24. This is one of the reasons of low growth in Q2 FY25. Due to tied conditionalities on expenditure of states we are not expecting any uptick in the H2 expenditure also. This will keep the overall growth numbers between 6-6.5% only.



States Capital Expenditure as % of Budgeted estimates

State	H1FY24	H1FY25	Change
Assam	21.6	28.6	7.0
Bihar	45.5	43.5	-2.0
Chhattisgarh	22.7	18.5	-4.3
Gujarat	29.6	28.7	-1.0
Haryana	26.3	22.9	-3.4
Himachal Pradesh	36.0	30.5	-5.5
Karnataka	16.9	23.4	6.5
Kerala	40.9	39.0	-2.0
Madhya Pradesh	53.1	44.6	-8.4
Maharashtra	20.8	20.2	-0.7
Punjab	14.3	37.3	22.9
Rajasthan	34.7	36.6	1.9
Tamil Nadu	40.0	34.1	-5.9
Telangana	60.9	29.6	-31.2
Uttar Pradesh	28.7	21.7	-6.9
Uttarakhand	29.6	22.9	-6.7
West Bengal	29.7	30.4	0.6

Source: SBI Research, CAG

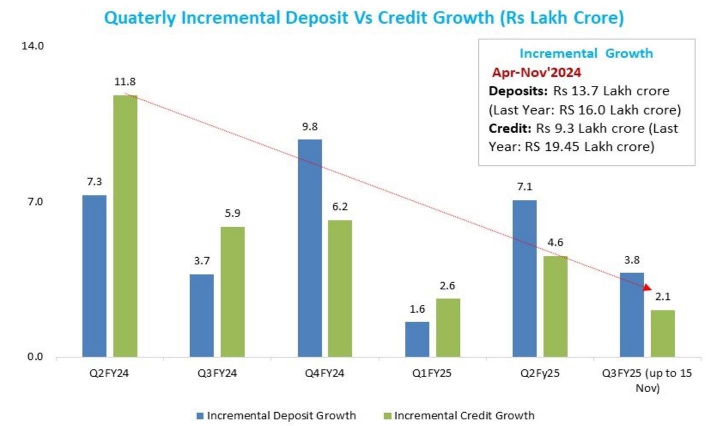
CREDIT GROWTH MODERATED SIGNIFICANTLY; MAY HAVE PUSHED GDP LOWER

- In the credit market, NBFCs, including MFIs, have drawn regulatory attention on account of exorbitant interest rates charged to their customers. Additionally, many banks are experiencing stress in small ticket advances, credit cards and personal loans. More generally, banks have circumspectly reined in lending to retail and services.
- As per the latest data, during the current year so far (till 15 Nov 2024), ASCBs incremental credit slowed to Rs 9.3 lakh crore (YTD 5.3%) and deposits to Rs 13.7 lakh crore (YTD 6.7%), compared to last year growth Rs 19.4 lakh crore (YTD 14.2%) and Rs 16.0 lakh crore (YTD 8.9%).
- The sector-wise incremental credit growth for October 2024, indicate that credit growth has slowed down across the sectors. Agri & Allied sector YTD growth declined to 6.5% (Last year: 10.6%), Industry 3.3% (Last year: 3.9%), Services 4.2% (14.2%) and Personal loans 5.9% (Last year: 19.6%). Credit to housing has declined significantly to RS 1531 bn during Apr-Nov’2024, compared to last year growth of RS 5708 billion. Consumer durables credit growth (YTD) has tuned negative of 0.3%, compared to last year growth of 5.7%.
- Among major industries, credit to ‘paper & paper products’, ‘Rubber, Plastic and their Products’, ‘chemicals and chemical products’, and ‘construction’ recorded a higher incremental growth during Apr-Oct’24, as compared to their respective growth rates a year ago. Credit to all other industries has declined significantly.
- By looking the trend growth, both deposits and credit may grow in the range of 11-12% during FY25.

EMPIRICAL RELATIONSHIP BETWEEN GDP AND CREDIT GROWTH: *ASCB CREDIT CAUSES GDP*

- To test the long-term relationship between GDP and credit, we have used Johansen cointegration test for the period FY90 to FY24. The results show that two series have one cointegration relationship, implying that the two tend to move together.
- Additionally, Granger causality test results for the GDP and credit data from 1990 shows that there is one way causal relationship between GDP and ASCB credit, **with increase in credit leading to higher GDP. So, as credit continue to decline, GDP may decline in Q3 too.**

SCBs Credit Growth Declined Significantly



Source: SBI Research

ASCBs Sector-Wise Credit Flow (Rs bn):October 2024							
Sectors	(Apr-Oct'23)FY24 YTD		(Apr-Oct'24) FY25 YTD		YoY %		FY25 as X times as FY24
	Rs bn	%	Rs bn	%	FY24 (Sep)	FY25 (Sep)	No of times
Agri. & Allied	**1833**	**10.6**	**1340**	**6.5**	**17.4**	**15.5**	**0.7**
Industry	**1321**	**3.9**	**1214**	**3.3**	**5.4**	**7.9**	**0.9**
MSE (Priority)	2067	12.6	1028	5.2	22.4	12.3	0.5
Infrastructure	545	4.5	-55	-0.4	1.1	1.6	0.1
Services	**5272**	**14.2**	**1927**	**4.2**	**24.0**	**12.7**	**0.4**
NBFCs	1017	7.6	-114	-0.7	18.3	6.4	0.1
Personal Loans	**8199**	**19.6**	**3162**	**5.9**	**29.6**	**12.9**	**0.4**
Housing (Including Priority)	5708	28.7	1531	5.6	36.6	12.1	0.3
Other Personal Loans	1444	12.6	461	3.3	25.5	10.9	0.3
Gross Bank Credit	**17827**	**13.0**	**8061**	**4.9**	**20.0**	**11.5**	**0.5**

Source: RBI, SBI Research

Sensitivity of Credit to Business cycles - Johansen Cointegration Test	
Difference order	1
Lag selection (AIC)	8
Rank	1
Trace statistic	29.70
Critical Value at 5% level	15.49
Cointegrating relationship with GDP	Yes

Pairwise Granger causality test (lags 2)		
	F-Statistic	Prob.
GDP does not Granger Cause ASCB Credit	0.72717	0.4928
ASCB Credit does not Granger Cause GDP	7.84183	0.0022
Only second relationship is significant at 5% level of significance, implying credit Granger causes GDP		

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