India GDP Growth-FY24:

Weaker Visibility after a Solid Q1

29-August-2023

Press Release

Mild brakes likely on GDP growth after a solid Q1

29-August-2023

A good start

The start to FY24 growth is set to be on a strong note, with Acuité Research estimating Q1 FY24 to post a healthy GDP growth of 7.7% YoY. Once again, the quarter is expected to see services sector outperform industry, though both are expected to post healthy expansion. A delayed start to this year's Southwest monsoon and deflation in input prices on annualized basis would buoy both mining and manufacturing sectors within the industrial sector. On the other hand, continued traction in contact-intensive services (especially those related to transport, hospitality etc.), steady growth in ITeS exports and a step up in construction activity, the latter driven by Government's consistent capex push would continue to power the growth of the services sector.

Growth to taper Q2 onwards especially amidst global risks

For FY24, nonetheless, we expect GDP growth to clock a growth of 6.0% implying therefore, that Q1 FY24 will mark a peak for the fiscal. Further ahead into the current and subsequent quarters, we expect growth outcomes to moderate amidst kicking in of an unfavorable statistical base along with pace of incremental economic momentum to slow down primarily on two fronts -

- **Exports continue to face headwinds**

Half way into calendar 2023, global growth has held up better than envisaged at the start of the year by most multilateral agencies, allowing marginal upward revisions to outlook as well. However, there is no denying an impending slowdown vis-à-vis 2022. IMF's latest forecasts indicate global growth is expected to moderate to 3.0% in 2023 from 3.5% in 2022. Fortunately, in India's favor, US GDP growth has held up well so far, but it stands countered somewhat by the downside in Eurozone, India's other key major export partner. Both, US and EU together account for nearly 35% of India's export basket. Global trade is expected to be the primary drag on global growth owing to post Covid protectionism, lingering Ukraine-Russia war and friend-shoring led increase in concentration of trade among countries. As per WTO, world merchandise trade volume is expected to grow at 1.7% in 2023, 100 bps lower when compared to 2022. All this is expected to result in echo effects that could reverberate in the near to medium term.

India is unlikely to remain insulated from this global slowdown, on account of adverse trade spillovers. India's trade performance indicates that growth in Indian exports has remained in contraction mode in the current year (-14.4% YoY in Apr-July'23 period), led by traditional sectors in which India enjoys global competitiveness and higher income elasticity such as gems & jewellery, plastic & rubber, textile and leather in addition to petroleum products. While annualized decline in commodity prices is partly responsible, there is evidence of shrinkage of volumes as well. With global growth slowdown expected to remain entrenched over the next few quarters, its adverse spillover on India is an expected logical outcome. Of the 100 bps slowdown in India's GDP growth in FY24 vis-à-vis last year, nearly 50 bps can perhaps be explained by moderation in exports.

- **Consumption growth a bit uncertain**

Trends in India's domestic consumption could be somewhat divergent, with moderation likely to be driven by urban demand. Transmission of higher interest rates coupled with complete dissipation of pent-up demand may pull down urban consumption growth. Hopefully, this should be offset by an uptick in rural demand. The steep decline in agricultural input costs, recent improvement in terms of trade for farm producers, higher cashflows post rabi output and procurement of wheat along with continued support to the agricultural sector ahead of elections are some factors that lend credence to this view.

- **Agricultural sector – no cause for alarm yet but monitorable**

Southwest monsoon, while reeling under a 7% deficit vs LPA on a cumulative basis, is expected to pick-up pace in Sep-23. Fortunately, bountiful rainfall in Jul-23 had ensured that Kharif sowing achieved same levels as last year, but the substantial rainfall deficit in Aug-23 may weigh on crop yields. Pulses has been a laggard in terms of area sown and has emerged as a point of worry from inflation perspective along with cereals. With Rabi output contributing as much share towards annual agricultural production as Kharif, El Nino and any subsequent climate risks will be an important determinant of agricultural growth and rural demand particularly in the second half of the fiscal.

- **Investments and Services: The heavy lifters**

Countering the global headwinds, support to growth is expected from the twin engines of investments and consumption of services. Government driven capex could find incremental support from private sector capex, at a time when capacity utilization levels have improved significantly. Economy wide capacity utilization level at around 76% as of Mar-23, as measured by RBI's OBICUS survey, stands at a 40 quarter high and well above LPA (Long Period Average) of 73.3%. This is reckoned to be led by sectors such as auto and infra-oriented sectors.

Services on the other hand, especially contact-intensive services in post Covid times, continue to remain in a 'rebound' mode. While a part of it is pent-up demand financed by Covid induced savings, some upside can perhaps be attributed to structural shift as Indian economy matures reflected in rapid growth of sectors such as trading, distribution, transport, logistics along with penetration of financial services.

Further, export of services especially in IT/ITeS and Professional and Management Consulting Services, found support from digital penetration and cost minimization efforts by companies, and has emerged as a new center of growth in the post Covid recovery phase.

FY24 & Beyond

FY24 will be a year of pulls and pressures for India. There is considerable uncertainty with respect to the FY24 GDP growth outlook, as depicted by the wide forecast range of 5.5-7.0% in RBI's recent SPF (Survey of Professional Forecasters). Notwithstanding an unsupportive global economic milieu and the moderation in growth (vis-à-vis FY23), India will still be one of the fastest expanding large economies globally. China has disappointed in emerging as a tailwind to global growth, giving India the opportunity to underpin its economic might in the current year and beyond. This has well coincided with the about-to-conclude G20 presidency, which India has leveraged adeptly to enhance its global influence in most spheres where India has an edge. The growth prospects backed by reforms in areas of public digital infrastructure, green investments, space/defence etc. combined with macroeconomic stability offer a perfect backdrop for India to sustain her attractiveness as the global destination for investments and fostering economic partnerships.

About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 9,600 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Media Contact:

Sahban Kohari Ph: + 91-9890318722 sahban@eminenceonline.in

Analytical Contacts:

Suman Chowdhury Chief Economist & Head of Research Ph: + 91-9930831560 suman.chowdhury@acuite.in	Prosenjit Ghosh Group Chief Business Officer Ph: +91-9920656299 prosenjit.ghosh@acuite.in