

# 'GDP growth expected to pick up in H2 as there are some tailwinds building up'

## bl.interview

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Despite the disappointing 5.4 per cent GDP growth in the second quarter (Q2FY25), growth is expected to pick up in the second half as there are some tailwinds building up, according to Ramnath Krishnan, Managing Director and Group Chief Executive Officer, ICRA.

FY25 could end with GDP growth of 6.5 per cent. Despite the weak GDP print for the last quarter, Krishnan said it's a tough call for the monetary policy committee to reduce interest rates as retail inflation remains a concern. He noted that while India Inc's rating upgrades are still higher than the number of downgrades, the credit ratio (the ratio of the number of upgrades to that of downgrades) is moderating. Their ability to take a few knocks is better at the present time as they had deleveraged during the Covid period.

Excerpts:

**What is your view on the slowdown in Q2FY25 GDP growth to 5.4 per cent from 6.7 per cent in Q1 and the uptick in November retail inflation number beyond 6 per cent?**

If I recollect right, at the start of the year, we had a

The credit ratio is still in the positive zone, and we are still seeing more upgrades as compared to downgrades

**RAMNATH KRISHNAN,**  
Managing Director and Group Chief Executive Officer, ICRA



GDP forecast of 6.5 per cent. We had raised that to 7 per cent. Did the first half see numbers close to this? The Q2 numbers were quite disappointing. However, we do expect growth to pick up in the second half and there are some tailwinds as well which are actually building into the second half, and we expect to close the year at 6.5 per cent.

Inflation, to be honest, remains a concern, and food inflation is naturally a very large component of that basket. Now, from the RBI standpoint, if there are concerns on inflation, it will be very, very difficult for them to take a call that they're going to reduce interest rates despite the weak GDP print for the last quarter. So, I think that's a narrative you're hearing from the Central bank repeatedly. They've changed the stance now but our own view is that we will only see a drop in interest rates in the February 2025 meeting if the

inflation prints recede sharply.

**In the first half, there have been more rating upgrades compared to downgrades, with the credit ratio standing at 2.2 times. How is the credit ratio panning out in H2?**

The credit ratio (the ratio of the number of upgrades to that of downgrades) is still in the positive zone and we are still seeing more upgrades as compared to downgrades. However, it is moderating compared to what we saw, let's say, post-Covid. It is not as high as it was at that point in time.

It was 3 at one point in time, came down to about 2.7, 2.6, and so on and so forth. So, it has been moderating since then. Whilst the upgrades are still higher than the number of downgrades, the delta is actually reducing. It has actually moderated.

During Covid, a number of

corporates deleveraged. They conserved capital, deferred expansion plans, etc. So, the balance sheets in general of India Inc are actually in a pretty decent space. Therefore, their ability to take a few knocks here and there, I think, is better at the present time as compared to where they were probably about three or four years ago.

**What is your outlook for various sectors?**

We have a positive outlook, at the present time, on just one sector, which is hospitality. On most of the sectors, we have a stable outlook. We have a negative outlook on select sectors like microfinance, telecom towers, chemicals, bulk tea, and cut and polished diamonds. Now, coming to the sectors where we have a stable outlook, probably more topical are banks, NBFCs, etc.

While it's stable, we are obviously seeing stress, and there will be players who are seeing a challenge. When we say our outlook for a sector is stable, that doesn't necessarily mean that the outlook that we assign to an individual player in that sector will also be stable. So, this is only at the overall sector level, taking into account all the players that we see and are in our rated universe.

When we rate an individual issuer, individual

borrower, it is primarily driven by the fundamentals of that particular entity, keeping in mind the overall landscape for that sector.

So, that is how we sort of marry the two and then assign the rating to that particular issuer or that particular borrower. These two don't have to be necessarily consistent with each other. So, the outlook can be different... Similarly, you could also have sectors where we have a negative outlook but a player, an individual player might have a stable outlook. So, that again is actually possible.

**Why is the outlook for the hospitality sector positive?**

I think, it's just basically the post-Covid surge in demand. People are actually getting out a lot, eating out a lot. They're going on holidays a lot more. So, I think, it is just consumer sentiment. And thanks obviously to the average room rentals, which have been fairly attractive, the occupancy rates have been pretty good.

A lot more weddings... Through Covid obviously weddings were all very restricted, and smaller crowds and so on and so forth. So, everybody is right now splurging. In the near term, at least, we expect that sector to continue to do well, also because the supply additions are lagging demand.