FY25 GDP growth may remain in 6.4-6.8% range

Rural demand, services sector may lift H2 showing

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Three weeks before the Union Budget for FY26, the National Statistics Office will release the first advance estimates of gross domestic product (GDP) for FY25 on January 7 amid a moderation in growth expectations.

Experts, however, say resilience in rural demand, along with sustained agricultural and services-sector output, will keep India on a growth path towards achieving 6.4-6.8 per cent expansion in FY25.

The Reserve Bank of India (RBI) has lowered the growth projection for this financial year to 6.6 per cent from an earlier estimate of 7.2 per cent.

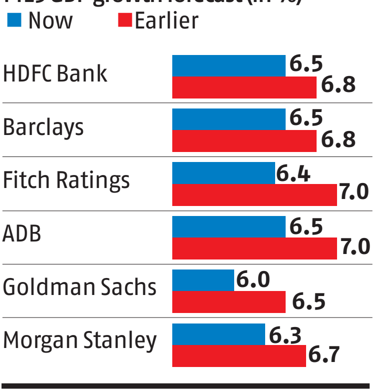
The central bank's Financial Stability Report said rural consumption, government expenditure, investment, and strong services exports were factors that would drive a pickup in growth in the third and fourth quarters of FY25.

The RBI's projection follows a fall in India's GDP growth to a seven-quarter low of 5.4 per cent in July-September as against its own projection of 7 per cent.

During the first half of FY25, real GDP growth (Y-o-Y) moderated to 6 per cent from 8.2 per cent in H1 and 8.1 per cent in H2 of 2023-24, respectively.

Weather-related disruptions, which played a dampener in growth in the first half, are showing signs of abating with improvement in kharif sowing. This is expected to have a positive impact on growth in the coming quarters.

FY25 GDP growth forecast (in %)



"The realisation of normal kharif produce is comforting. Rabi sowing has started on a good note and that will offset weather-related disruption. Inflation is also on the decline, which will improve purchasing power to boost consumption," said Vivek Kumar, economist, QuantEco Research.

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Prolonged ₹ slump may hit next year's contracts

The current rupee-dollar rates would likely not have an immediate impact. However, Jain noted that if the local unit continues to weaken over a longer period, it could affect next year's contracts, though it is difficult to predict at this stage.

In 2023-24, India's pharmaceutical exports to the US accounted for 31 per cent of the total drug exports, amounting to $8.7 billion.

India's total pharmaceutical exports for the year were valued at $27.8 billion, marking a 9.6 per cent growth from the previous year.

Experts believe that the US will remain a key driver for Indian pharmaceutical companies, as over 90 per cent of prescriptions in the country are for affordable generics.

In 2022, Indian companies supplied four of ten prescriptions filled in the US.

Additionally, Africa accounted for approximately 14 per cent of India's pharmaceutical exports in 2023-24, while Europe constituted 20.05 per cent.

"A weaker rupee will help Indian pharma exports. Hope companies use rupee devaluation to increase profitability instead of competing against indigenous competition. Several Indian companies sell below cost to gain market share, which is a flawed competitive strategy," Kiran Mazumdar Shaw, chairperson, Biocon & Biocon Biologics told *Business Standard*.

"Chinese pharma is the competition but largely for APIs India has clear dominance in finished formulations. To my knowledge, we haven't seen any impact thus far but this is something that is evolving and I am sure companies will be vigilant to respond appropriately," she added.

Analysts agree.

Vishal Manchanda, an analyst with Systematix Institutional Equities, told Business Standard that major pharma players are moving away from low-value generics exports to regulated countries like the US. They are getting rid of some tail-end products.

"We have seen that in some cases there has been a slight dip in value terms for generic exports by big pharma from India. At the same time, indigenous competition among pharma players to grab export market share has increased. Smaller players are reducing prices to gain market share," Manchanda elaborated.

"In the current situation where the rupee is devaluing, if smaller players cut prices (aided by this currency tailwind) then there can be price renegotiations even in the middle of annual contacts," he cautioned.

A Systematix analysis showed how India's exports to the US are turning highly competitive. The market share of the top ten exporters (excluding the high-value opportunity) declined from 60 per cent in the calendar year (CY) 2021 to around 50 per cent in CY23.

"Overall, the exports to the US from India (excluding the high-value opportunity) grew by just $200 million, from $6.8 billion in CY21 to $7 billion in CY23. New companies are growing rapidly, but traditional companies are witnessing a decline in market share in India," a Systematix report said.

A mid-sized pharma exporter from Gujarat Lincoln Pharmaceuticals which exports to more than 60 countries highlighted that higher import prices of APIs largely offsets the benefits of a weak rupee for exporters.

Munjal Patel, director, Lincoln Pharmaceuticals said they source 90 per cent of the API needs from different vendors.

Even if they source from an Indian vendor, these vendors, however, source some key starting materials or intermediates from China.

"The prices of APIs have gone up in recent months, and this largely offsets the benefits of a weak rupee," he added.