

Q2 economic growth may have surpassed RBI's 7% projection

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Led by a revival in consumption demand, an above-normal monsoon that propped up agriculture, robust industrial growth, and sustained public capex, the Indian economy is expected to have sustained the growth momentum in the July-September quarter (Q2) with a gross domestic product (GDP) growth uptick to over 7 per cent, after the 7.8 per cent growth recorded in Q1, economists reckon.

The National Statistics Office (NSO) is expected to release the quarterly growth estimates for Q2 on November 28.

In its bi-monthly monetary policy review that concluded on October 1, the Reserve Bank of India (RBI) had raised its GDP growth estimate for Q2 to 7 per cent from 6.7 per cent projected earlier, noting that domestic economic activity has continued to 'sustain momentum' in the September quarter.

ILLUSTRATION: AJAYA MOHANTY



Growth outlook

Q2 GDP growth projection (Y-o-Y in %)

IDFC First Bank	7.3
India Ratings	7.2
CARE Ratings	7.2
Bank of Baroda	6.9-7.1
L&T	7.1

Q2 GDP growth projection (Y-o-Y in %)

HDFC Bank	7.1
Elara Capital	Above 7
Emkay Group*	Above 7
Motilal Oswal*	7
NIPFP	7

* Informally communicated

Source: BS Research

Favourable base effects and the low deflator growth which boosted the headline growth number in Q1, are likely to have persisted through Q2, most economists believe.

The impact of steep US tariffs on Indian goods, which increased to 50 per cent from August 27, was not fully felt in Q2, even though front-loading of US shipments by domestic producers occurred at a slower pace than in Q1. Moreover, the impact of the goods and services

tax (GST) rate rejig that kicked in on September 22, may not be too tangible in the Q2 print even as the indirect tax reform may have triggered a deferral of buying decisions before the revised rates came into effect. IDFC Bank Chief Economist Gaura Sengupta, who pegged GDP growth in Q2 at 7.3 per cent, pointed to the recovery in rural indicators becoming more broad-based in Q2 FY26 with a pick-up in two-wheeler and tractor sales. Turn to Sec II, 4 ►

Q2 economic growth may have surpassed RBI's 7% projection: Economists

More encouraging, she said, was the sustained decline for demand for jobs under the MGNREGA over July to October as it indicates job creation in rural areas.

"Real rural wage growth has also picked up which has supported consumption growth. Improvement was also seen in industrial activity indicators with a pick-up in industrial output [measured by the Index of Industrial Production or IIP] growth, and freight transportation services," she projected

The downturn in GDP deflator growth which led to the upsurge in growth in Q1 remains low in Q2 as well and is now tracking at 0.6 per cent, with the continued cooling of inflation measured by the Consumer Price Index (CPI) and Wholesale Price Index (WPI).

Penning in Q2 GDP growth at 7.2 per cent, Rajani Sinha, chief economist, CareEdge Ratings said that despite high tariffs, Indian exports to the US in the non-petroleum and non-agriculture sectors maintained their momentum. The construction sector is expected to remain robust due to strong capital expenditure allocations, Sinha argued.

"High frequency indicators suggest a healthy momentum, driven primarily by agriculture, manufacturing and construction. The increase in MSP and good monsoon supported rural sentiment. Services sector performance, however, remains mixed as toll revenues, insurance premium and non-food credit growth improved, whereas air passenger traffic and e-way bill generation showed moderation in growth," she added.

India Ratings' Associate Director Paras Jasrai estimated 7.2 per cent growth in Q2, noting that the economy has navigated treacherous waters better than expected due to strong domestic demand. Steady government capex remains instrumental in lifting investment demand at a time of uncertainty, he added.

The rating firm expects GVA (Gross Value Added) growth to have firmed up to a seven-quarter high of 7.7 per cent in Q2 thanks to base effects from the 5.8 per cent growth recorded in Q2 of 2024-25 (FY25). It also pegged industrial sector growth at 7.8 per cent in Q2, the strongest in five quarters, thanks to strong growth in manufacturing and construction.

On the emerging risks to growth in the second half of 2025-26, Sengupta cautioned that high tariffs will impact the labour-intensive MSME sector which accounts for a 45 per cent share in merchandise exports, and this has the potential to drag real GDP growth by one percentage point over a 12-month period.

Manufacturing and services are both expected to have risen 8.5 per cent, although it means a slight downtick for the latter from the 9.3 per cent growth recorded in Q1, India Ratings posited. Farm sector growth is projected at 3.2% in Q2, from 3.7 per cent in Q1 as Kharif sowing growth stood at just 0.6 per cent, and crop productivity may be affected by the above normal monsoon.

The real GDP growth looks stronger as lower input costs have provided some succour to the growth momentum, despite heightened global economic uncertainty and volatility, it said, while flag-

ging concerns that a continued weakening in nominal GDP growth may complicate the fiscal arithmetic.

Flat wholesale inflation and benign retail price rise might have further lowered the GDP deflator growth during Q2, possibly matching the level of 0.2 per cent recorded during Q2 FY20. Consequently, the nominal GDP growth is likely to have slipped below 8% yoy during

2QFY26, India Ratings averred.

"From the demand side, private consumption is a leading growth driver due to steady real income growth both in upper- and lower-income households. The resilient services sector along with the favourable base-led goods exports growth in the manufacturing sector propelled GDP growth from the supply side during Q2," Jasrai explained.

QCOs for plastics, polymer, synthetic fibres scrapped

Industry representatives complained that synthetic fibre manufacturers would face 20-35 per cent higher fibre and yarn prices compared to producers in key exporting nations, which would in turn affect export performance.

CITI Chairman Ashwin Chandran said polyester fibre and polyester yarn form most of the man-made fibre prod-

ucts, and hence, this measure by the authorities would contribute to the growth of the man-made fibre segment in India.

Removing these QCOs would improve the cost competitiveness of Indian textile and apparel products by making it easier to obtain raw materials at internationally competitive prices, Chandran added.

Qcom feeds revenue appetite of packaged food majors

In the July-September quarter, Tetley Tea's parent saw 16 per cent from modern trade, 14 per cent from qcom, and 7 per cent from e-commerce.

"I'd think we're probably ahead of the curve with higher percentage contributions from qcom and e-commerce. Our simple principle is: if the consumer is on qcom, you'd better be there," D'Souza said.

Shrikant Kanhere, managing director and chief executive officer of AWL Agri, told investors during a post-results call, "Our alternative channel has clocked more than ₹4,400 crore in revenue over the past 12 months, and it's growing very fast — with qcom growing 80-85 per cent for us."

Angshu Mallick, executive deputy chairman at AWL Agri, added, "In the top 10 metros, particularly over the past year, there's been a tremendous shift in buying patterns. Mom-and-pop stores haven't been able to grow — their growth has been subdued or negative — but modern trade has grown 8-10 per cent, and qcom 50-80 per cent."

Parle Products has also seen qcom emerge as a major growth driver. "The qcom channel has grown almost fivefold for us and now contributes nearly 6 per cent to overall sales," said Mayank Shah, vice-president, Parle Products.

"This is because of the increased penetration of e-commerce and qcom players

