

Economy Note-Update on Q1FY26 India's GDP

GDP grew at 7.8% YoY in Q1FY26, but caution ahead

Quick View – India's GDP grew by 7.8% YoY in Q1FY26 highest since Q4FY24, drastically beating the expectations of 6.7% YoY (Bloomberg). Growth in the previous quarter (Q4FY25) was 7.4% YoY, and it was 6.5% YoY Q1FY25. Overall Real GVA grew by 7.6% beating the expectation of 6.4% while it was 6.8% YoY in Q4 FY25 and 6.5% YoY Q1FY25.

Market View - The latest GDP figure comes as a surprise and India's equity market is expected to react positively. With the anticipated GST rate cuts ahead of the festive season, a much-needed revival in consumption is expected. This could act as a key catalyst for the long-overdue demand recovery. In turn, corporates are likely to step up their investment activity, further reinforcing the growth momentum. While the near-term outlook remains constructive, elevated tariffs of 50% pose a potential headwind to growth over the remainder of the current fiscal year.

- The Real Private Final Consumption Expenditure witnessed growth of 7.0% in vs 6.0% YoY in Q4FY25 and 8.3% in Q1FY25.
- The Government Final Consumption Expenditure came strong at 7.4% YoY vs -1.8% YoY in Q4FY25 and -0.3% YoY in Q1FY25.
- Real Gross Fixed Capital Formation remains strong at 7.8% YoY vs 9.4% YoY in Q4FY25 and 6.7% YoY in Q1FY25.
- Exports grew by 6.3% YoY vs 3.9% YoY in Q4FY25 and 8.3% YoY in Q1FY25. Imports grew by 10.9% YoY vs. degrowth of 12.7% YoY in Q4FY25 and a degrowth of 1.6% YoY in Q1FY25.
- Manufacturing grew by 7.7% YoY in Q1FY26 vs. 4.8% YoY in Q4FY25 and 7.6% in Q1FY25.
- Mining continued its lackluster performance in Q1FY26 with growth of -3.1% YoY vs. 2.5% in Q4FY25 and 6.6% in Q1FY25. While the Construction witnessed a good growth of 7.6% YoY but lower than 10.8% in Q4FY25 and 10.1% in Q1FY25.
- Agriculture saw a decent growth of 3.7% vs. 5.4% in Q4FY25 and 1.5% in Q1FY25.
- The overall growth of the Tertiary sector grew at 9.3% YoY vs. 7.3% YoY in Q4FY25 and 6.8% YoY in Q1FY25. Within the tertiary sector, the Public Administration, Defense & Other Services saw a strong growth of 9.8% YoY vs. 8.7% YoY in Q4FY26 and 9% in Q1FY25. Financial, real estate and professional services also witnessed a strong growth rate of 9.5% vs. 8.7% in Q4FY25.

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CONCLUSION

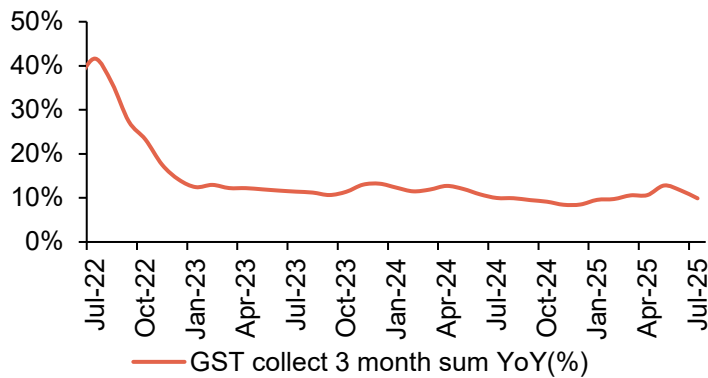
The main drivers of the Q1FY26 GDP were government expenditure and private consumption. Concurrently, GVA growth was underpinned by strong performance in the manufacturing and services sectors.

Going forward, implementation of GST changes would act as a positive catalyst on demand side along with other factors such as lower inflation, tax stimulus (announced in February 2025) and RBI rate cuts.

Key risks with respect to FY26 economic growth is the trade relationship between US and India and imposition of 50% tariffs on critical export categories like gems and jewelry, textiles, leather, and shrimp. This is expected to exert pressure on trade deficit and employment in the coming quarters. However, if ongoing trade negotiations yield favorable outcomes, the adverse impact could be mitigated, cushioning the sector from deeper setbacks.

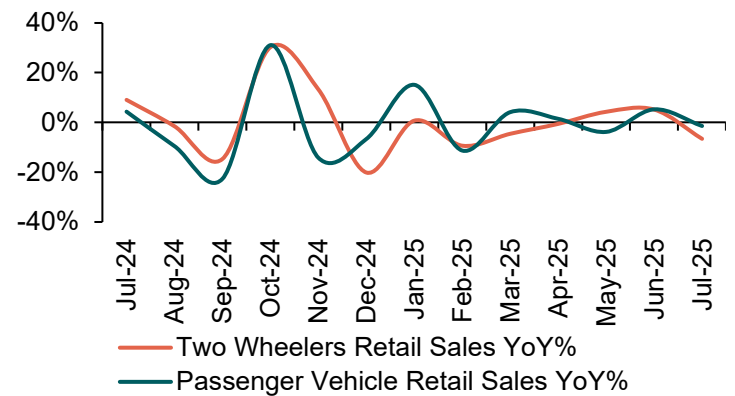
Charts of Economic Indicators

Exhibit 1: GST collection grows at a steady rate of 10% YoY



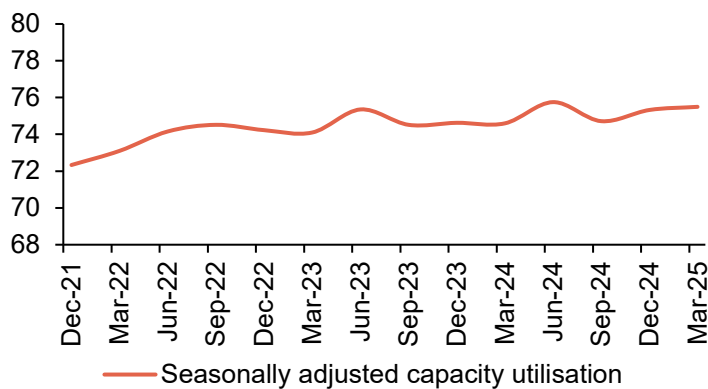
Source: IndiaDataHub, Dolat Capital

Exhibit 2: Auto sales remain weak



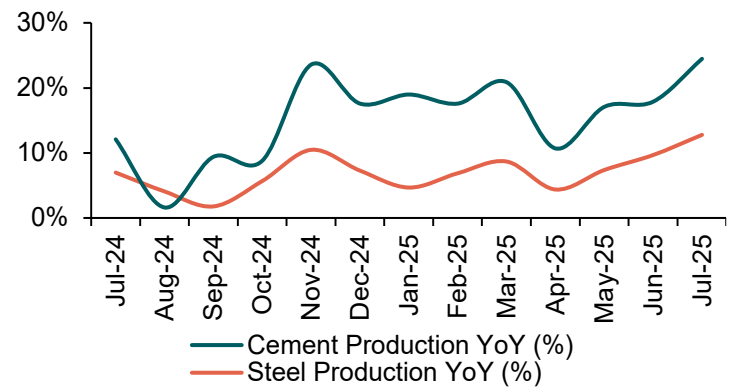
Source: IndiaDataHub, Dolat Capital

Exhibit 3: Capacity Utilization remains steady



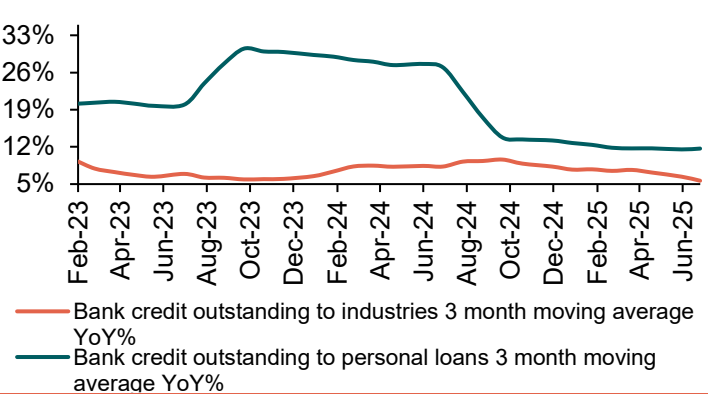
Source: RBI, Dolat Capital

Exhibit 4: Steel & cement production remains strong



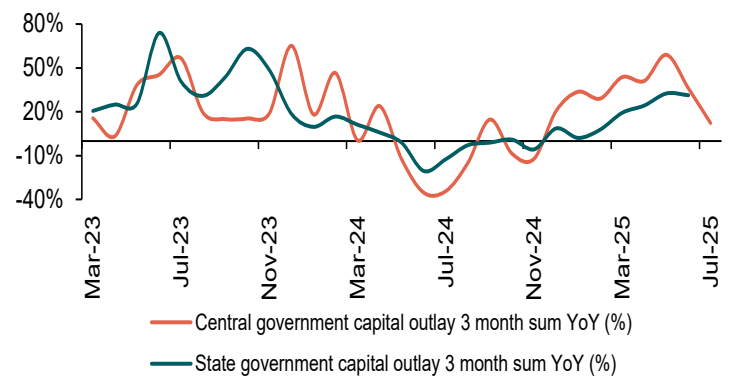
Source: IndiaDataHub, Dolat Capital

Exhibit 5: Bank credit growth yet to see an uptick



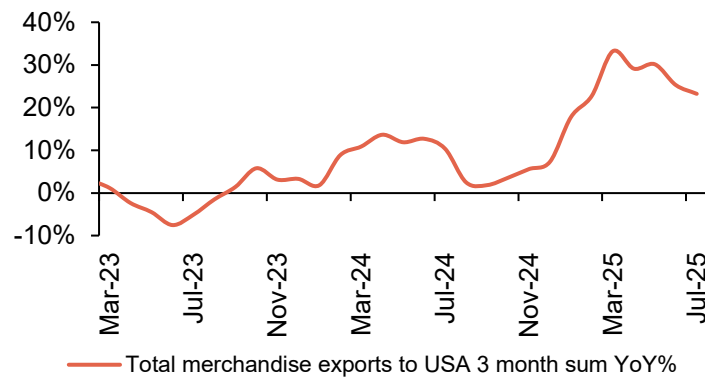
Source: RBI, Dolat Capital

Exhibit 6: Government capital outlay remains robust



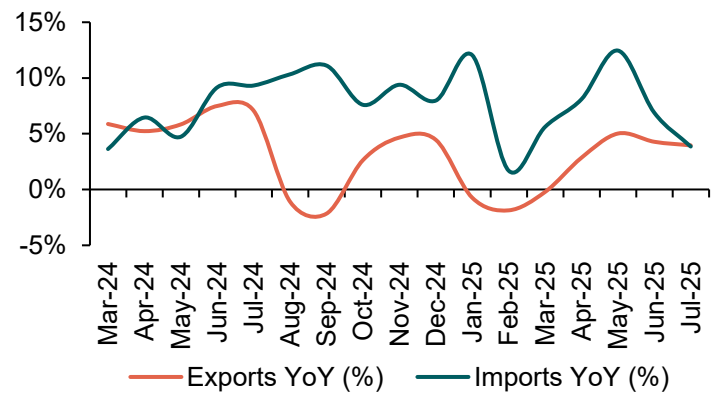
Source: IndiaDataHub, Dolat Capital

Exhibit 7: Front loading of exports to US



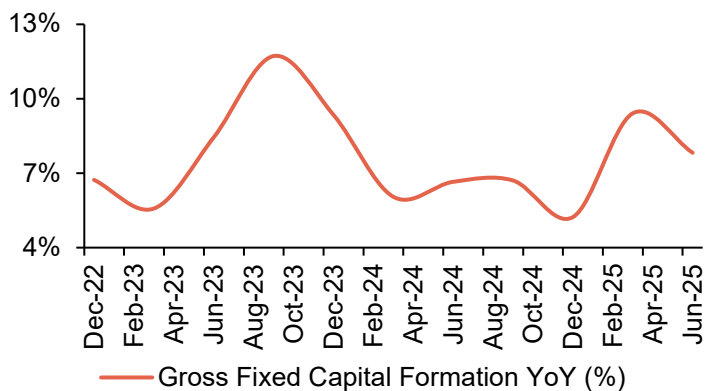
Source: IndiaDataHub, Dolat Capital

Exhibit 8: Exports picking up the pace



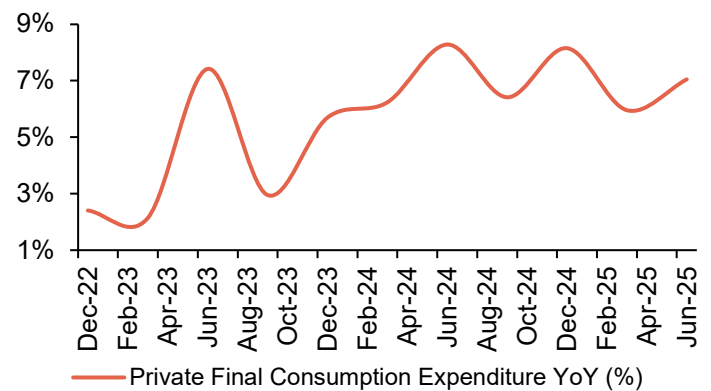
Source: IndiaDataHub, Dolat Capital

Exhibit 9: GFCF supported by higher gov capex



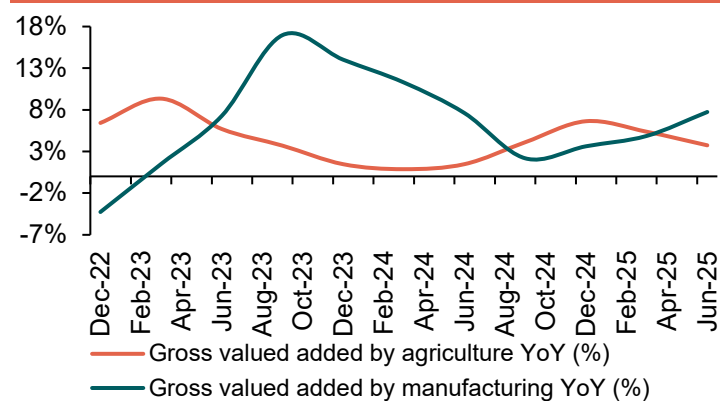
Source: RBI, Dolat Capital | GFCF considered in real terms

Exhibit 10: PFCE stays resilient



Source: RBI, Dolat Capital | PFCE considered in real terms

Exhibit 11: Strong growth in manufacturing albeit moderation in agriculture



Source: RBI, Dolat Capital | GVA considered in real terms

Dolat Rating Matrix

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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