Arc Equity

December 01, 2025

Quick Snapshot | The Fineprint

Outlook

Q2 GDP at 8.2%; growth momentum affirmed

Quick Snapshot

- India's GDP accelerated sharply, growing at 8.2% in Q2FY26 (versus 5.6% in Q2FY25 and 7.8% in Q1FY26), standing at a six-quarter high. Markets likely to react constructively.
- Growth was primarily driven by the manufacturing and services sectors, supported by robust rural demand, increased government spending, early export shipments and pre-festive buying.
- A high H1 GDP print would drive the full-year number to over 7%, leading to India attaining the "fastest growing" tag among global peers.
- Private consumption strengthened to 7.9%, indicating healthier demand.
- Strong momentum to positively influence equities, favouring sectors such as consumption, manufacturing, NBFCs, PSUs, auto, and real estate.

The Fineprint

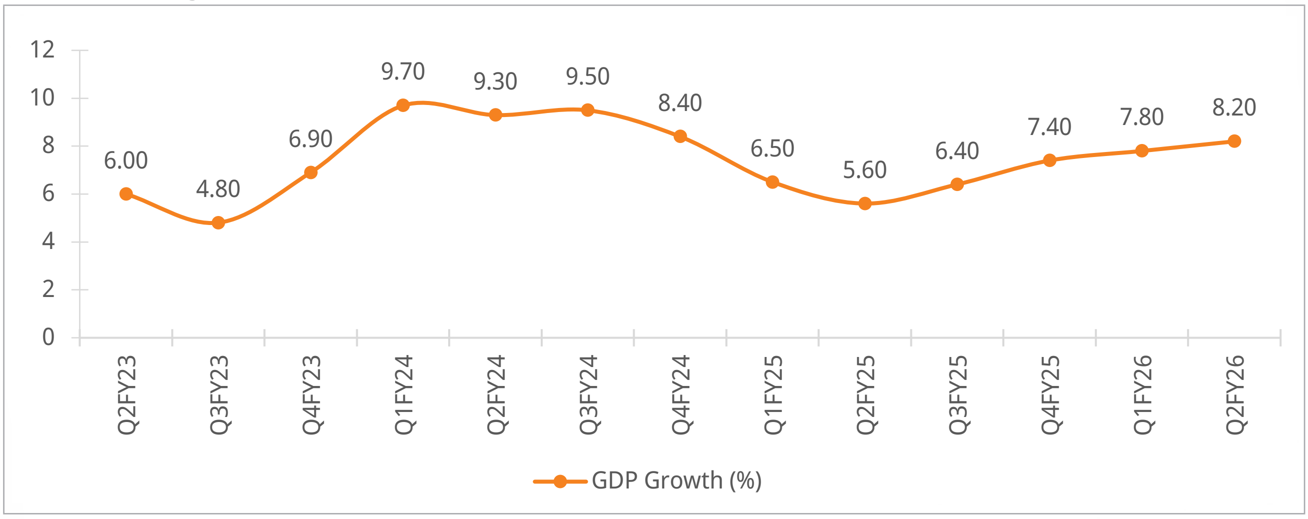
- **Robust GDP growth:** Strong GDP print for Q2 was the result of core GVA (ex-agriculture and public finance) that rose 8.5% y-o-y in Q2FY26 as compared to a slower 5.6% y-o-y. Sharp growth was led by pickup in manufacturing at 9.1% and the continued resilience in financial and professional services at 10.2% highlighting that India's growth engines are broad-based and structurally improving. Support from lower interest rates, impact of GST rationalisation and income tax relief also played an important role.
- Nominal GDP grew by 8.7% in Q2FY26 versus 8.3% in Q2FY25. The gap between real and nominal GDP has lowered to 0.5 percentage points, the lowest since FY2020.
- **Manufacturing activity surges:** It grew at a robust 9.1% (up from 2.2% last year), leading to an industry-level growth of 7.7% from 3.8% in Q2FY25.
- **Services sector expands well:** Services sector grew strongly at 9.2%, anchored by a stellar 10.2% growth in financial, real estate, and professional services. This high-value service expansion, coupled with a healthy 7.9% rise in private consumer spending, confirms strong domestic demand and high business confidence.
- **Government capex:** The government's growth commitment is evidenced by a massive 31% spike in capital expenditure. This was paired with a significant reversal in trade, as merchandise exports grew by 8.8% (versus a 7% drop).
- Investment demand, measured by gross fixed capital formation, rose by a solid 7.3%, though at a slightly slower pace than the 7.8% seen in Q1FY26.
- Agriculture, however, lagged, rising just 3.5%, and utilities such as electricity, gas and water supply grew 4.4%, reflecting a softer patch for these segments.

Outlook

The 8.2% GDP growth in Q2FY26 and 8.0% for H1FY26: This decisively anchors a high-growth trajectory and firmly suggests an upward revision for the full fiscal consensus forecast. Momentum is fundamentally driven by robust domestic consumption, actively strengthened by progressive fiscal measures like adjusted tax brackets and GST rate reductions. Complemented by supportive monetary policy and a healthy financial system—evidenced by 11.4% credit growth in November 2025 (fortnightly) the economy is primed for expansion. Benign inflation also bodes well for lowering of key policy rates by the RBI. Strong GDP growth is expected to translate into strong corporate performances, ensuring a positive outlook for the stock market, especially for sectors sensitive to domestic demand such as consumption, automobiles, and the rural economy.

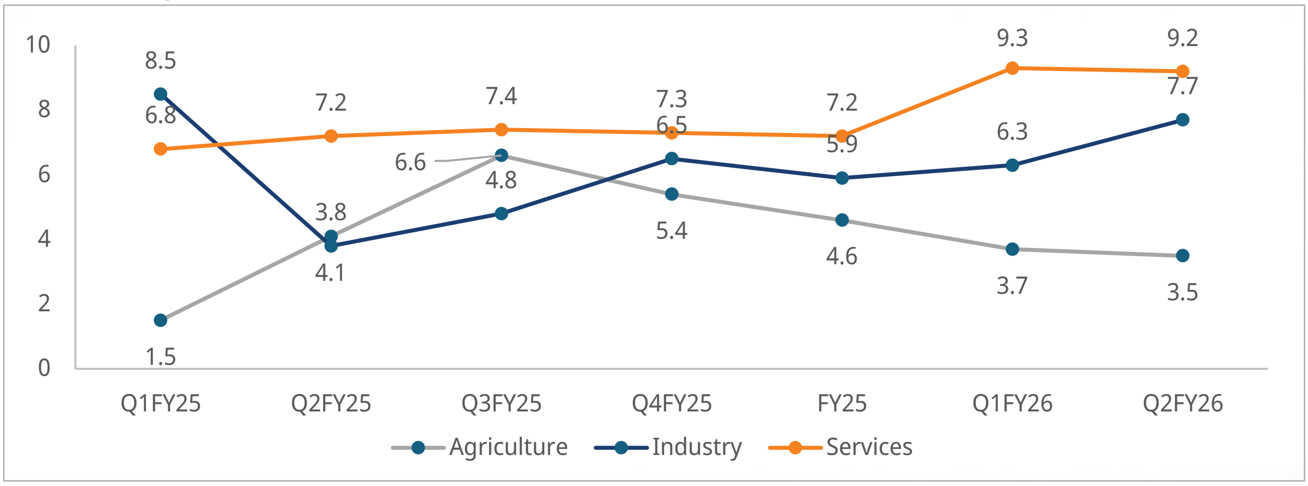
Overall, the GDP print supports the medium-term equity narrative: corporate earnings remain backed by real activity rather than sentiment, and the investment cycle is expanding rather than peaking.

Growth hits a high note



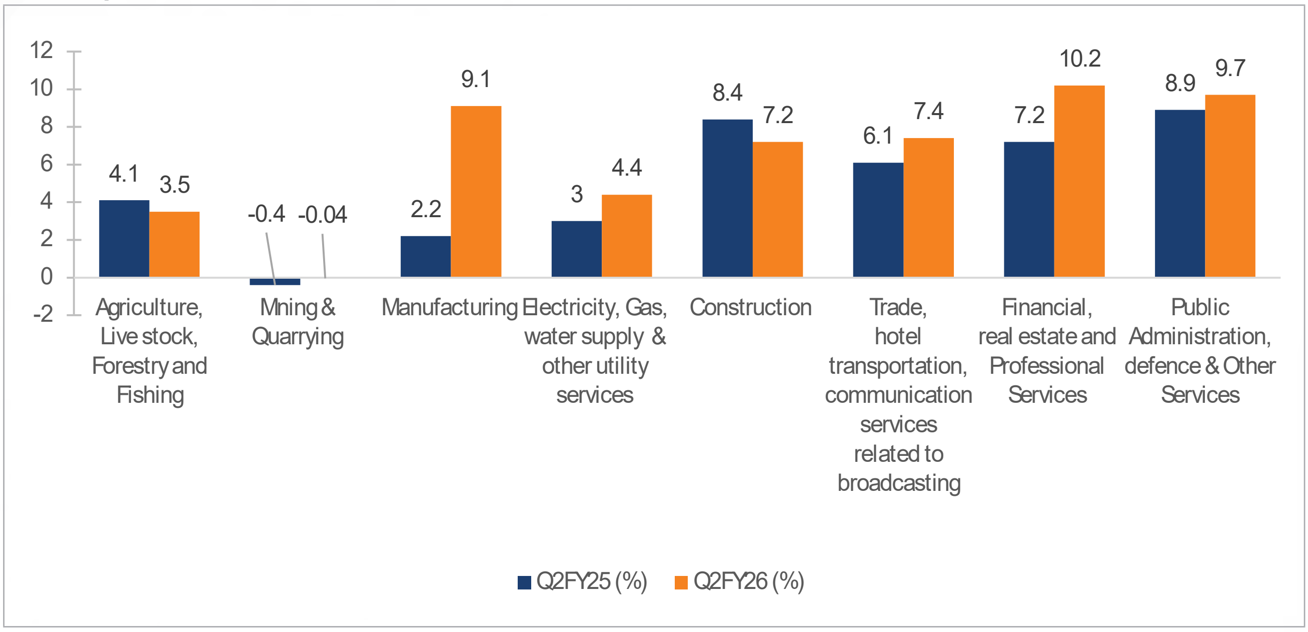
Source: Mirae Asset Sharekhan Research, MOSPI

Manufacturing and Services led the show



Source: Mirae Asset Sharekhan Research, MOSPI

Sectoral performance



Source: Mirae Asset Sharekhan Research, MOSPI

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