

Dolat View – India's real GDP expanded 8.2% YoY in Q2 FY26, sharply above the 7.2% consensus (Bloomberg). The upside surprise was driven by strong private consumption and sustained investment momentum. On the GVA front, the services sector remained the key engine, rising 9.2% YoY. A favorable base and a soft deflator amplified the headline GDP print, pushing growth higher than anticipated.

Key Highlights

- **Nominal GDP:** Grew 8.7% YoY in Q2FY26 vs 8.8% YoY in Q1FY26 vs 8.3% YoY in Q2FY25.
- **Real GDP:** Grew 8.2% YoY in Q2FY26 vs 7.8% YoY in Q1FY26 and 5.6% YoY in Q2FY25.
- **Real Private Final Consumption Expenditure:** Grew 7.9% YoY in Q2FY26 vs 7.0% YoY in Q1FY26 and 6.4% YoY in Q2FY25.
- **Real Government Final Consumption Expenditure:** Fell by 2.7% YoY in Q2FY26 vs growth of 7.4% YoY in Q1FY26 and 4.3% YoY in Q2FY25.
- **Real Gross Fixed Capital Formation:** Grew at 7.3% YoY in Q2FY26 vs 7.8% YoY in Q2FY26 and 6.7% YoY in Q2FY25.
- **Real Exports:** grew by 5.6% in Q2FY26 vs 6.3% YoY in Q1FY26 and 3.0% YoY in Q2FY25.
- **Real Imports:** grew by 12.8% YoY in Q2FY26 vs. 10.9% YoY in Q1FY26 and 1.0% YoY in Q2FY25.
- **Real GVA by Primary Sector:** Grew by 3.1% YoY in Q2FY26 vs 2.8% YoY in Q1FY26 and 3.5% YoY in Q2FY25
- **Real GVA by Secondary Sector:** Grew by 8.1% YoY in Q2FY26 vs 7.0% YoY in Q1FY26 and 4.0% YoY in Q2FY25
- **Real GVA by Tertiary sector:** Grew by 9.2% YoY in Q2FY26 vs 9.3% YoY in Q1FY26 and 7.2% YoY in Q2FY25

Outlook

H1 FY26 was supported by strong investment activity, but tax collections failed to keep pace. Weak nominal growth, weighed down by a subdued deflator, suppressed nominal tax receipts, and GST collections softened further due to rate rationalization. This combination could leave government revenue short of target and may constrain central government capital outlay in the remainder of the financial year. Meanwhile, on exports, the impact of tariffs is clearly visible: exports to the US and aggregate exports declined sharply. This offsets the earlier front-loading of shipments and could weigh on performance later as well if negotiations do not progress in a timely manner.

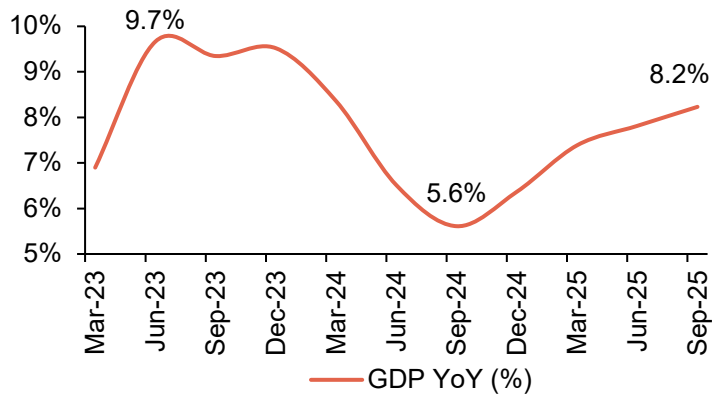
However, private consumption held up well, and with early indicators suggesting that this strength will sustain its momentum into Q3. As inflation is expected to stabilize by the end of the current financial year, we expect nominal growth to pick up if the demand induced by the rate rationalization remains resilient.

Amit Khurana, CFA
Head of Equities
+9122 40969745
amit@dolatcapital.com

Naman Gola
Associate Research
+9122 40969700
namang@dolatcapital.com

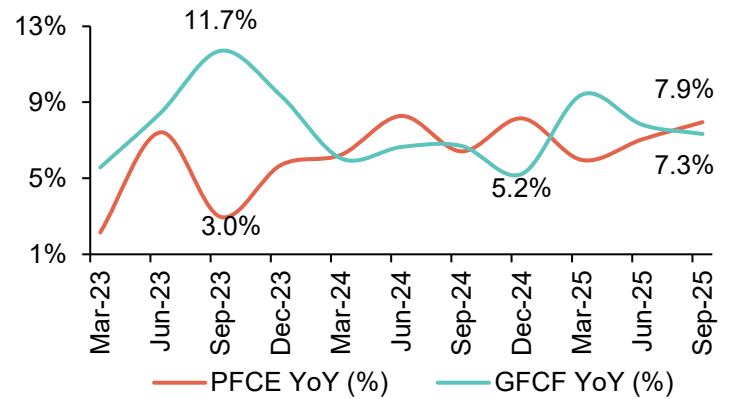
The Story in Charts

Exhibit 1: Fastest GDP growth in 18 months



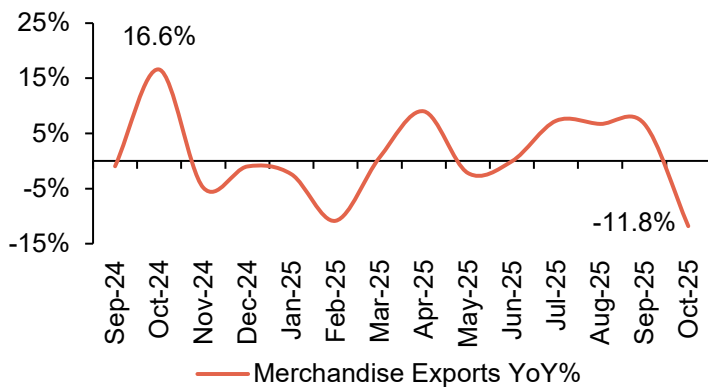
Source: IndiaDataHub, Dolat Capital

Exhibit 2: PFCE and GFCF remain the key drivers



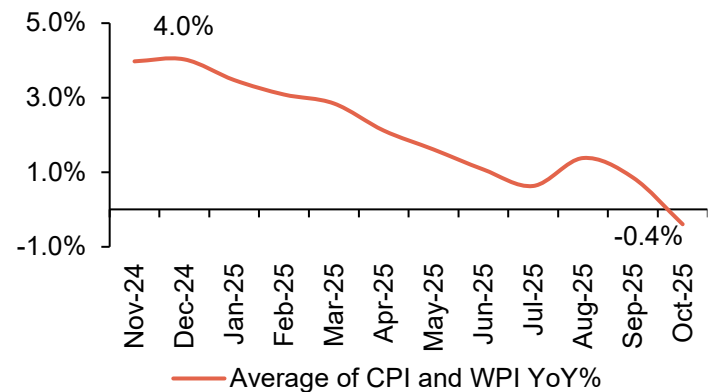
Source: IndiaDataHub, Dolat Capital

Exhibit 3: Front-loaded export gains have reversed



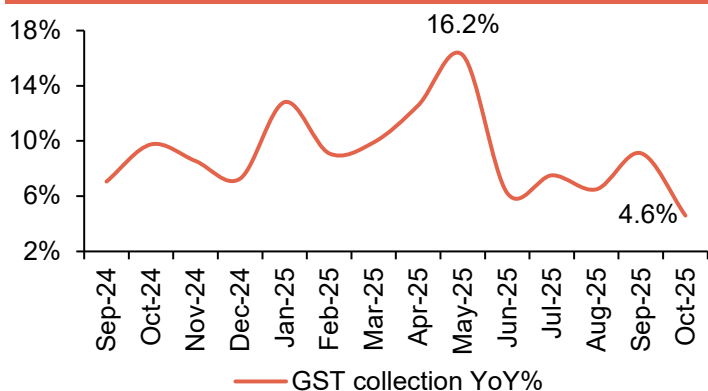
Source: IndiaDataHub, Dolat Capital

Exhibit 4: Deflator will remain low in Q3FY26



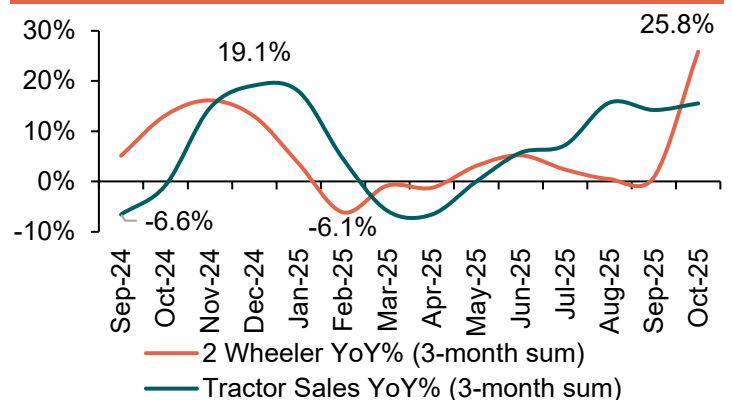
Source: IndiaDataHub, Dolat Capital

Exhibit 5: GST collections slowing down



Source: IndiaDataHub, Dolat Capital

Exhibit 6: Festive demand was remarkably strong



Source: IndiaDataHub, Dolat Capital

Dolat Rating Matrix

Total Return Expectation (12 Months)

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

Dolat Team

Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
CONTACT DETAILS			
Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	Director - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	Director - Equity Sales & Corporate Access	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	Director - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Nikhil Thacker	Director - Equity Sales	nikhilt@dolatcapital.com	+9122 4096 9700
Pratik Shroff	AVP - Equity Sales	pratiks@dolatcapital.com	+9122 4096 9621
Rajeev Lala	AVP - Equity Sales	rajeevl@dolatcapital.com	+9122 4096 9767
Equity Trading	Designation	E-mail	
P. Sridhar	Director and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	Director - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	Director - Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Director - Sales Trading	kartikm@dolatcapital.com	+9122 4096 9715
Nishit Sariya	VP - Derivatives Sales Trading	nishits@dolatcapital.com	+9122 4096 9765
Monali Jobanputra	Co - Head Asia Derivatives	monalij@dolatcapital.com	+9122 6176 4841
Bhavin Mehta	Director Research - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

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SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000014012

Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
