India GDP Update – Q2 FY26

DOLAT CAPITAL
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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.

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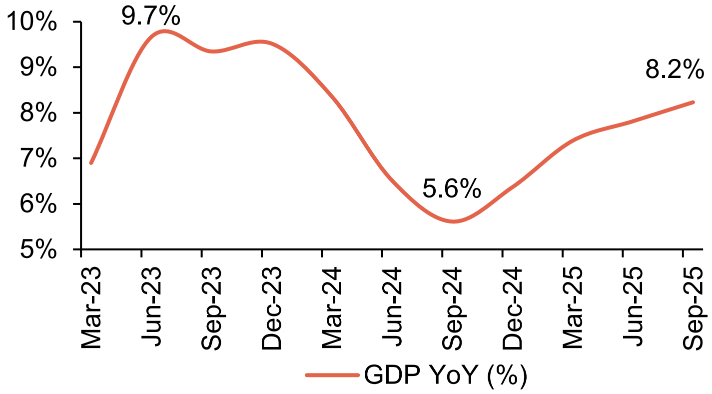
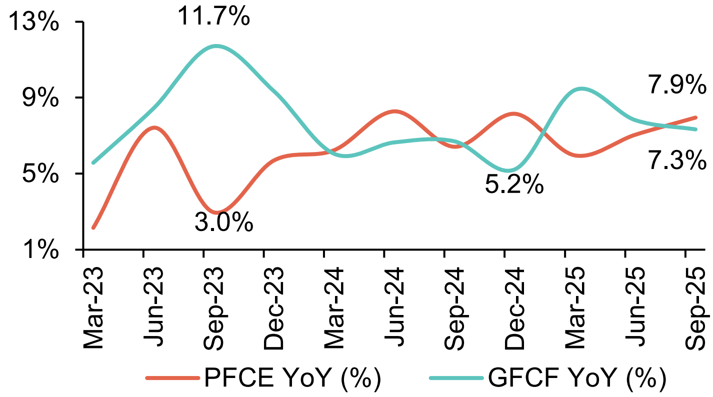
The Story in Charts

Exhibit 1: Fastest GDP growth in 18 months



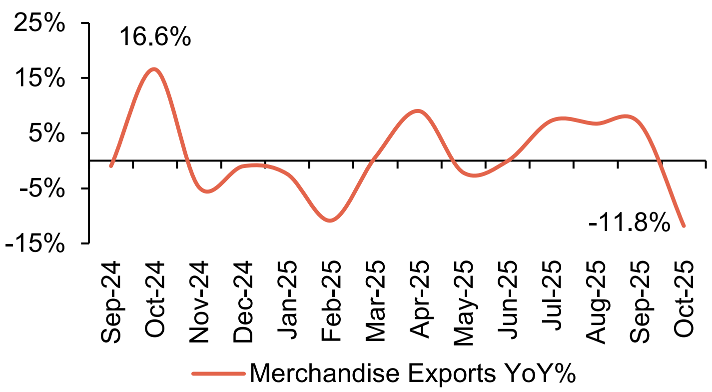
Source: IndiaDataHub, Dolat Capital

Exhibit 2: PFCE and GFCF remain the key drivers



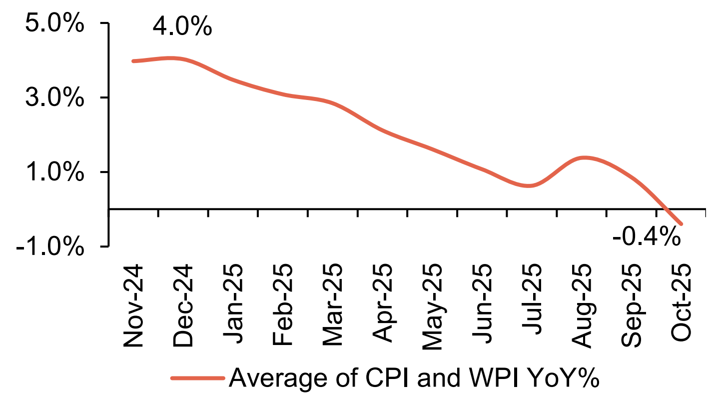
Souce: IndiaDataHub, Dolat Capital

Exhibit 3: Front-loaded export gains have reversed



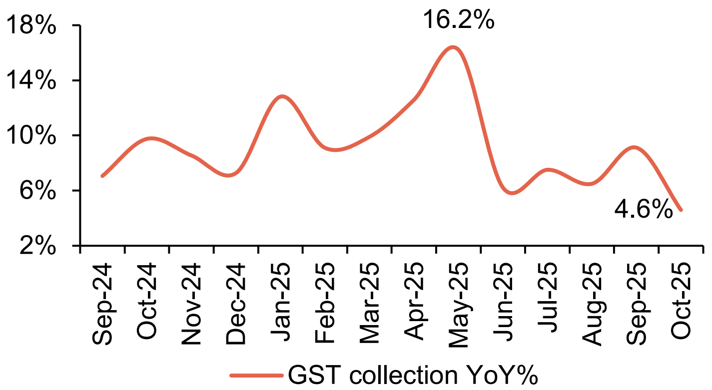
Souce: IndiaDataHub, Dolat Capital

Exhibit 4: Deflator will remain low in Q3FY26



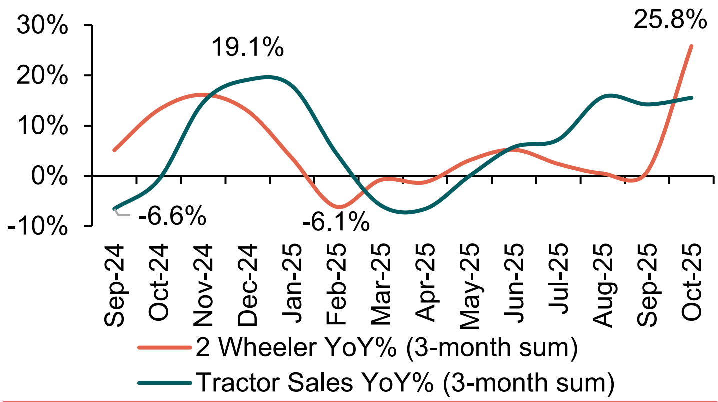
Souce: IndiaDataHub, Dolat Capital

Exhibit 5: GST collections slowing down



Souce: IndiaDataHub, Dolat Capital

Exhibit 6: Festive demand was remarkably strong



Souce: IndiaDataHub, Dolat Capital

Dolat Rating Matrix

Total Return Expectation (12 Months)

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

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