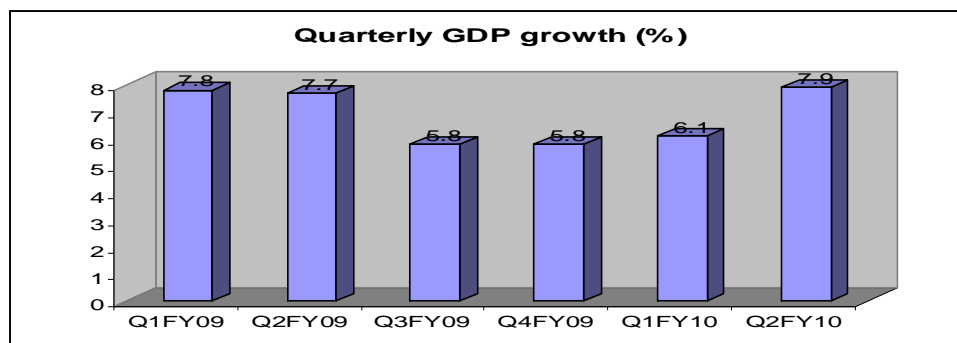


November 30, 2009

**GDP REBOUNDS IN SECOND QUARTER:  
FISCAL STIMULUS SPURS STRONGER ECONOMIC GROWTH**

**Backdrop:**

The Gross Domestic Product (GDP) figures released by Central Statistical Organization (CSO) have indicated a better than expected growth for the second quarter FY10. GDP is estimated to have grown by 7.9 per cent much above consensus economists' estimates of 6.5 to 7 per cent. With this, half yearly GDP growth stands at 7 per cent and clear signs of growth recovery, albeit sluggish are discernible. The recovery however continues to remain narrow and government demand rather than private demand has continued to be the primary stimulus for growth in the second growth.



Source: CSO

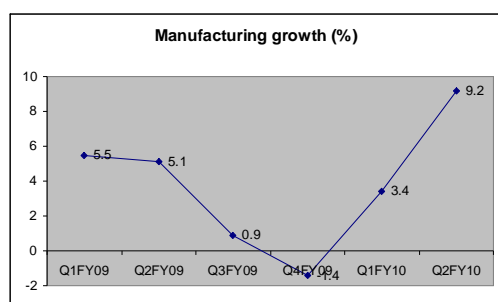
**Manufacturing growth revival**

Two striking features that are witnessed are the significant recovery in manufacturing growth rates and the continued dominance of government demand in bolstering growth. The manufacturing sector, which comprises about 15.8 per cent of the GDP, grew by 9.2 per cent in Q2 FY10 as against 3.4 per cent in the first quarter and 5.1 per cent in Q2 FY09. However a closer perusal reveals a highly uneven growth recovery in the sector. Looking at the April to September period in FY10, for example; while machinery and equipment, transport sector and rubber, plastic sectors have shown strong growth; contraction has been witnessed in food products, jute, vegetable fibres, metal products and beverages and tobacco. Cotton textiles have continued to

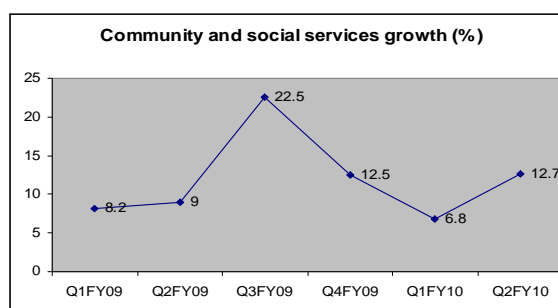
show a tepid growth of 0.9 per cent in the period. Other sectors where growth remains sluggish include leather, fur, paper and paper products.

**Continued Strength in Government demand**

Another striking feature has been the continuance of government demand rather than private demand as the primary stimulant to growth. Growth in community, social and personal services (comprising 14.9 per cent of GDP), which are majorly reflective of government demand showed a growth of 12.7 per cent in Q2 FY10 as against 6.8 per cent in Q1 FY10.



Source: CSO



Source: CSO

This also reflects the continuing positive impact of the fiscal stimulus on the economy. However it also points to the lack of complete recovery in private demand.

**Performance of other sectors:**

***Quarter-wise growth in key sectors (%)***

	2008-09		2009-10	
	Q1	Q2	Q1	Q2
Agriculture, forestry and fishing	3.0	2.7	2.4	0.9
Mining and quarrying	4.6	3.7	7.9	9.5
Electricity gas and water supply	2.7	3.8	6.2	7.4
Construction	8.4	9.6	7.1	6.5
Trade, Hotels, transport and communication	13.0	12.1	8.1	8.5
Financing, insurance, real estate and business services	6.9	6.4	8.1	7.7
Community, social and personal services	8.2	9.0	6.8	12.7

Source: CSO

Among other sectors, mining and quarrying showed a stronger growth of 9.5 per cent in Q2 FY10 as against 7.9 per cent in Q1 FY10. Agriculture showed a significant fall in its growth rate to 0.9 per cent in Q2 FY10 as against 2.7 per cent and 2.4 per cent in Q2 FY09 and Q1 FY10 respectively. With the shortfall in Kharif production, FY10 is

---

turning out to be a bad year for the sector. Service segments outside community and personal services have maintained a strong growth rate with the exception of construction which showed to 6.5 per cent in Q2 FY10 from 7.1 per cent in Q1 FY09. Overall with the exception of agriculture, growth fundamentals continue to remain strong this year.

**Outlook:**

There are clear signs of a recovery in certain important manufacturing sectors and growth fundamentals underlining the services sector continue to remain strong. Credit growth to the commercial sector however continues to remain tepid indicating the persistence of some element of uncertainty. However strong growth in government demand appears to have compensated for the shortfall in private demand. The shortfall in Kharif production will have its full impact on the quarter ending December 2009 acting as a constraint of growth on the period. However clear signs of recovery in some key sectors of the economy will have a positive growth impact in FY10.

**Analyst Contact**

Name: Venkatesh Rangan

Tel # 022 6754 3456

Mobile # 99674 85422

Email:venkatesh.ranganl@careratings.com

**Disclaimer**

This Newsletter is published by Credit Analysis & Research Ltd. (CARE) and is for private circulation only. Nothing contained in this Newsletter shall constitute or be deemed to constitute an offer to sell/purchase any security or as an invitation or solicitation to do so for any securities of any entity. CARE has taken due care and caution in preparing this Newsletter. Information has been obtained by CARE from sources it considers reliable. CARE does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions for the results obtained from the use of such information. CARE especially states that it has no financial liability whatsoever to any user on account of the use of information provided in this Newsletter.