BRICKWORK RATINGS

India's Q1 FY27 GDP analysis and credit outlook

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September 2026

Executive summary

India's Q1 FY27 GDP outperforms: Real growth hits 7.8% versus 7.0% RBI target

India’s economy registered a robust performance in Q1 FY27 with real GDP expanding 7.8% YoY (INR 81.36 trillion) in Q1 FY27, up from 6.9% in Q1 FY26, surpassing the RBI forecast of 7.0% by 80 basis points. Nominal GDP expanded by 10.3% YoY. Growth was primarily driven by Gross Fixed Capital Formation (GFCF), which grew a double-digit 11.9% in real terms (versus 5.8% in Q1 FY26) and its share of nominal GDP rose to 34.4% from 33.1% a year earlier. This underscores high capex productivity and corporate balance sheet resilience. Private Final Consumption Expenditure (PFCE) sustained a healthy base growth of 7.1% YoY, reflecting resilient urban demand and a gradual recovery in rural purchasing power.

Real GVA surges to 8.2% amid sectoral divergence

Real Gross Value Added (GVA) accelerated to 8.2%, driven by strong momentum in Financial, Real Estate & Professional Services (+12.1%), Manufacturing (+9.2%), and Electricity & Utilities (+8.9%), while nominal GDP and GVA growth of 10.3% and 11.5% respectively point to a modest re-acceleration in the GDP deflator relative to FY26. Conversely, primary sector growth slowed to 2.9% from 5.3%, dragged by a 2.4% contraction in mining and quarrying.

Real exports jump 12.0% as cross-border demand for capital goods surges

The trade sector presented a dynamic picture; Real exports expanded significantly by 12.0% (INR 19.14 trillion), while real imports recorded a -1.1% decline. However, nominal external trade reflected high trade velocity, with nominal exports surging 25.8% (INR 22.61 trillion) and nominal imports rising 30.9% (INR 24.99 trillion). This variance highlights surging cross-border demand for capital equipment, demonstrated by a 51.5% jump in machinery imports and a 52.2% surge in transport equipment exports.

Sovereign strength: Q1 GDP surge reinforces India’s credit profile and debt sustainability

From a credit rating perspective, the Q1 FY27 GDP performance significantly reinforces India's sovereign credit profile by demonstrating enhanced investment intensity, robust financial sector health, and disciplined fiscal management. A surge in Gross Fixed Capital Formation highlights strong public and private asset creation, while growth in financial and professional services underscores dynamic credit expansion backed by resilient banking balance sheets. Coupled with steady net indirect tax revenues of INR 7.54 trillion and controlled government spending, these structural drivers provide substantial fiscal space to support debt sustainability and maintain a trajectory of deficit consolidation.

FY27 investment outlook: Capex surge signals sustained growth amid global risks

Brickwork Ratings expect the investment-led character of this quarter to persist through FY27, supported by strengthening capital-goods and machinery-linked indicators (Index of Industrial Production) (IIP) Capital Goods +15.2%, IIP Electrical Equipment +27.0%, import of machinery & equipment +51.5%). The principal risks to this view are global crude/commodity price pass-through to the import bill, a weak start to primary-sector output, and the still-provisional nature of the new GDP series, which remains subject to revision as administrative data are updated.

Table 1:
Macroeconomic snapshot and key indicators:

Macroeconomic indicator	Q1 FY26	Q1 FY27	Sovereign credit implication
Real GDP growth (YoY)	6.9%	7.8%	Positive: Outperforms peer emerging markets; fortifies fiscal debt-to-GDP trajectory.
Real GDP absolute (INR trillion)	75.46	81.36	Positive: Strong baseline expansion.
Real GVA growth (YoY)	7.0%	8.2%	Positive: Strong underlying economic momentum across secondary & tertiary sectors.
Nominal GDP growth (YoY)	8.1%	10.3%	Neutral-positive: Supports tax revenue targets while inflation remains contained.
Gross Fixed Capital Formation (GFCF) / Capex growth (Real)	5.8%	11.9%	Strong positive: Multi-year capex cycle underpins medium-term potential output.
Services GVA growth (Real)	8.0%	10.0%	Positive: High value-addition and export resilience soften global trade headwinds.

Source: Ministry of Statistics and Programme Implementation (MoSPI) Press Release, August 31, 2026; Reserve Bank of India (RBI) Monetary Policy Reports.

GDP growth analysis, expenditure breakdown and demand dynamics

Subsidy payouts widen GVA-GDP gap while cushioning domestic demand

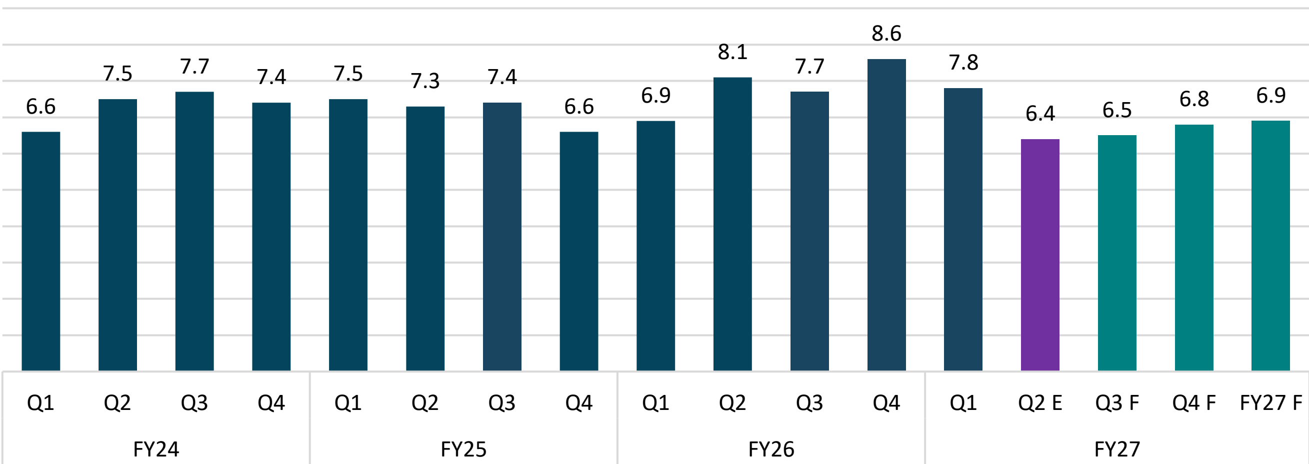
Rising subsidies broadened the GVA-GDP gap, absorbing input shocks to boost private consumption by 7.1%.

India's GDP data release confirms a noticeable widening in the GVA-GDP wedge in Q1FY27, where real GVA growth (8.2%) outpaced real GDP growth (7.8%), driven by a higher subsidy burden relative to net indirect tax collections during the quarter, particularly for fertilizers (+58% YoY), food, and fuel, which outpaced gross indirect tax collections and constrained Net Indirect Tax growth. Although higher subsidy disbursements created artificially pulled headline GDP below supply-side GVA performance, they served as a crucial economic stabilizer by absorbing input cost shocks in agriculture and energy, thereby protecting household disposable income and supporting a 7.1% YoY expansion in private consumption

Capex-led resilience driving India's upward FY27 GDP revision

Beyond sectoral dynamics, the expenditure side highlights a structural pivot in the growth model: momentum is shifting from a post-pandemic, consumption-driven baseline toward a synchronized private-public capex framework. This foundation provides a vital buffer against external headwinds. Though risks linger from volatile global crude prices, commodity inflation, and uneven monsoon trends, this steady economic performance provides a strong baseline cushion, prompting upward revisions for FY27 GDP forecasts toward the 7.0% range.

Figure 1
India's real GDP growth (%), YoY



Source: Ministry of Statistics and Programme Implementation (MoSPI); Reserve Bank of India (RBI); Brickwork Research. E- Estimate, F- Forecast

Table 2:
Expenditure breakdown and demand dynamics (Q1 FY27)

Expenditure Component	Q1 FY26 (INR trillion)	Q1 FY27 (INR trillion)	YoY Growth (%)	GDP Share (%)
Private Consumption (PFCE)	41.76	44.74	7.1%	55.0%
Government Consumption (GFCE)	8.19	8.55	4.3%	10.5%
Gross Fixed Capital Formation (GFCF)	24.97	27.96	11.9%	34.4%
Exports of Goods and Services	17.08	19.14	12.0%	23.5%
Imports of Goods and Services	19.72	19.51	-1.1%	24.0%
Gross Domestic Product (GDP)	**75.46**	**81.36**	**7.8%**	**100.0%**

Source: Ministry of Statistics and Programme Implementation (MoSPI) Press Release, August 31, 2026;

Private consumption rebounds while government spending remains disciplined

Private Final Consumption Expenditure (PFCE), representing domestic household demand, picked up pace to grow by 7.1% in real terms (INR 44.74 trillion) compared to 6.8% in Q1 FY26. Household vehicle registrations (+15.9%) and passenger vehicle sales supported this consumption recovery. Conversely, Government Final

Sectoral GVA breakdown

Consumption Expenditure (GFCE) rose at a measured pace of 4.3% in real terms (INR 8.55 trillion), holding its share of nominal GDP stable at 10.5%, signalling fiscal consolidation alongside targeted expenditure.

Table 3:
Sectoral GVA growth distribution (Q1 FY26 versus Q1 FY27)

Industry / Economic sector	Sector share (% GVA)	Q1 FY26 growth (% YoY)	Q1 FY27 growth (% YoY)	Rating outlook sector impact
Agriculture, Forestry and Fishing	17%	4.4%	3.6%	Stable: Favourable monsoon supporting rural consumption base.
Mining and Quarrying	2%	12.4%	-2.4%	Negative/Watch: Input cost pressures and volatile commodity PPI.
Manufacturing	13%	8.3%	9.2%	Positive: Double deflation benefits and PLI production momentum.
Electricity, Gas, Water and Utilities	3%	-1.8%	8.9%	Strong Rebound: High peak summer power demand driving utilities.
Construction	9%	5.2%	7.7%	Positive: National infrastructure execution and real estate capex.
Trade, Hotels, Transport, Comm.	15%	9.8%	8.5%	Positive: Robust domestic air passenger traffic and freight movement.
Financial, Real Estate & Prof. Svcs.	27%	8.8%	12.1%	Strong Outperform: Leading economic growth; strong credit growth & IT.
Public Admin, Defence & Other	14%	4.6%	7.5%	Stable: Increased government social spending and service delivery.
Total Gross Value Added (GVA)	100.0%	7.0%	8.2%	Positive Overall Sovereign Trajectory

Source: MoSPI estimates of Gross Value Added at Basic Prices (Constant 2011-12 Prices).

Tertiary sector dynamics: Financial strength and domestic mobility drive service acceleration

The tertiary sector demonstrated notable momentum, led by Financial, Real Estate & Professional Services, which surged 12.10% on the back of robust systemic credit growth, strong corporate balance sheets, and buoyant IT and professional services exports. Concurrently, the Trade, Hotels, Transport & Communication segment expanded 8.50%, bolstered by resilient domestic mobility as evidenced by an 8.3% increase in Railway Passenger-Kilometres, even as shifted international logistics routes triggered a 19.5% decline[1] in international air passenger traffic and cargo.

Secondary sector surge: Manufacturing and infrastructure execution power industrial GVA

The secondary sector demonstrated broad-based industrial strength, anchored by an expansion in manufacturing that benefited from reduced domestic intermediate cost pressures, Production Linked Incentive (PLI) scheme execution, and thriving technology-driven clusters, evidenced by massive IIP gains in electrical equipment (+27.0%), transport equipment (+19.5%), capital goods (+15.2%), and computer, electronic, and optical products (+12.4%). Concurrently, electricity, gas, water, and utilities staged a dramatic recovery to grow 8.90% (up from a -1.8% contraction in Q1 FY26) on record peak summer demand, while construction accelerated 7.70% through strong public infrastructure and real estate execution, supported by solid physical indicators like cement production (+8.9%), finished steel consumption (+8.3%), and IIP infrastructure goods (+7.2%), alongside a 16.5% nominal GVA surge that underscores robust commercial execution pricing.

Primary sector divergence: Stable agriculture gains contrast sharp mining contraction

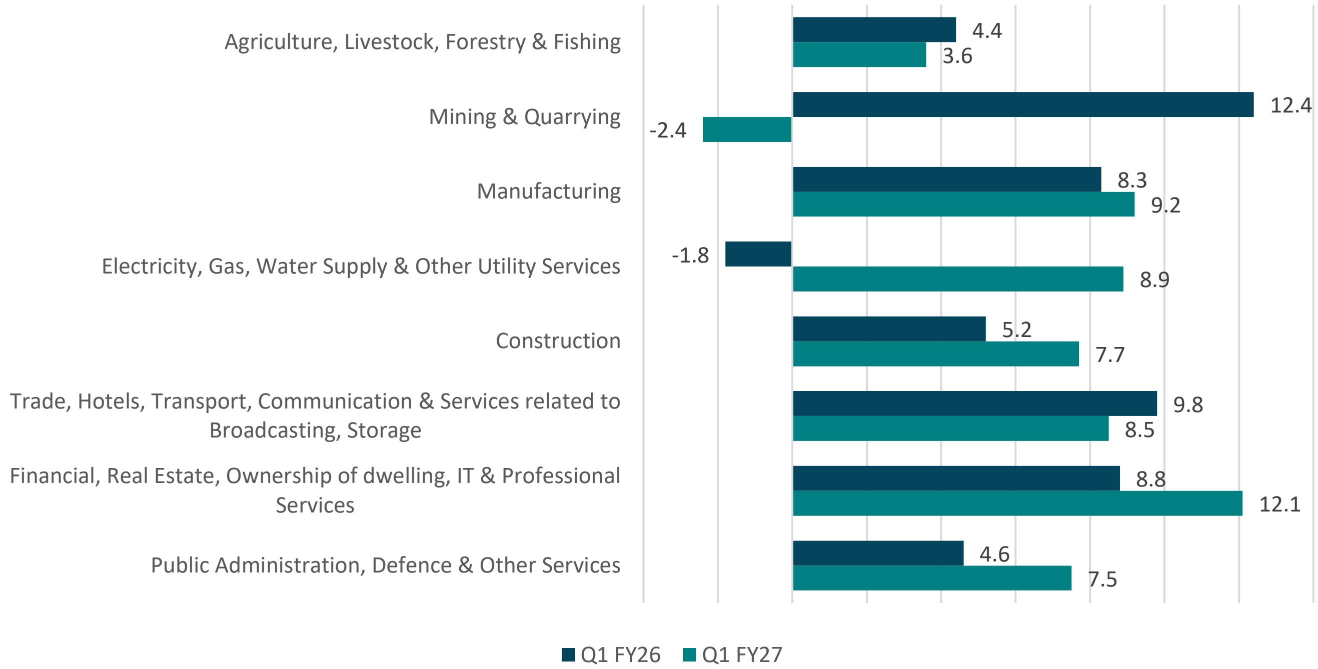
Primary sector performance presented a stark divergence: while agriculture, livestock, forestry, and fishing maintained a stable baseline growth of 3.60% backed by favourable monsoon spatial distribution, mining and quarrying fell into a sharp -2.40% contraction,

[1] Ministry of Statistics and Programme Implementation, Government of India, “Press note on quarterly estimates of gross domestic product for the first quarter (April-June) of 2026-27” August 31, 2026

Methodological framework and price deflator analysis

a steep drop from +12.4% in Q1 FY26, driven by a 2.6% decline in natural gas consumption, a 4.5% fall in IIP fuel minerals, and severe cost compression from a 58.0% PPI spike in crude oil and natural gas. Despite these primary supply drag factors, ground logistics and physical goods distribution across domestic networks remained exceptionally robust, evidenced by commercial vehicle sales surging 18.3% YoY (reversing a -0.3% contraction in Q1 FY26) alongside a 20.1% jump in goods transport vehicle registrations.

Figure 2:
Sector-wise growth rates (%) of real GVA



Methodological mechanics and deflator dynamics in India's Q1 FY27 GDP

Methodological precision: How double deflation and PPI frameworks isolated real GVA in Q1 FY27

The Q1 FY27 estimates leverage the 2022-23 base series using the IMF's Quarterly National Accounts Manual framework, incorporating a critical technical shift: double deflation for manufacturing GVA. By separately deflating Gross Output and Intermediate Consumption using granular Producer Price Indices (PPI), this method isolates real value-added despite volatile upstream producer price dynamics. Because input costs for energy and crude commodities surged faster than final manufactured goods prices during the quarter, this input-cost inflation squeezed implicit GVA price deflators, ultimately preserving robust real value-added figures even amid nominal cost pressures across supply chains. These estimates rely on high-frequency administrative inputs (GST receipts, e-VAHAN logs, corporate filings, PFMS) and remain subject to revision in upcoming releases.

Risks and outlook

Table 4:
Downside risk matrix

Risk vector	Impact severity	Probability	Transmission channel and operational impact
Global commodity volatility	High	Medium	Crude spikes enlarge import bills and compress manufacturing GVA deflators.
Primary sector weakness	Medium	Low-medium	Monsoon spatial gaps risk lower kharif output and primary GVA drag.
Trade protectionism & logistics	Medium	Medium	Altered maritime logistics routes impact trade velocity and transit times.
Data revision dynamics	Low-medium	High	Revisions to provisional administrative datasets (e-VAHAN, corporate balance sheets).

Outlook

India's FY27 growth expected to normalize to 6.9%, supported by private capex and fiscal stability

Looking ahead, India's FY27 growth is projected to normalize toward a durable 6.9%, with quarterly prints expected to glide into the 6.5%-6.8% range across subsequent quarters as base effects level out following a strong Q1. Further, global factors such as ongoing geopolitical conflicts, volatile energy prices, and sluggish trade threaten export growth and elevate input costs, while domestic challenges including uneven monsoon patterns impacting agricultural output and persistent inflation risks continue to constrain monetary easing. In summary, the Brickwork Ratings forecast remain the conservative.

Robust capex, strong tax collections, and resilient balance sheets maintain a constructive macroeconomic outlook

Robust capital spending, expanding industrial output, and strong equipment demand power the current economic expansion. Healthier corporate balance sheets, low non-performing assets, and active bank lending protect tax revenues and support India's sovereign rating. Front-loaded GST and direct tax receipts allow the government to trim the fiscal deficit while maintaining public investment, giving the RBI room to hold policy rate steady. Although tight deposit growth keeps NBFC borrowing costs elevated, overall macroeconomic momentum remains strong.

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