ICRA

INDIAN ECONOMY

Transient factors to weigh upon GVA growth in Q1 FY2025

JUNE 2024

Agenda

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Outlook

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Extreme heat conditions, uneven rainfall, likely slowdown in the GoI's capex and project execution, weaker volume growth, and fading impact of benign commodity prices point to a mild dip in GVA growth in Q1 FY2025.

ICRA projects GDP/GVA growth at 6.8%/6.5% in FY2025, amid a transient slowdown in H1.

The earliest possible rate cut is likely in December 2024, after there is clarity on the monsoon turnout and its impact on the food inflation trajectory.

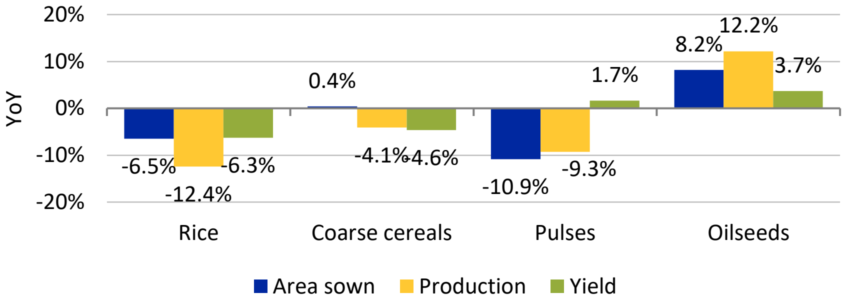
The impact of extreme heat conditions on footfalls and walk-ins, uneven rainfall, likely slowdown in project execution and capital spending by the Government of India (GoI) owing to the General Elections, weaker year-on-year (YoY) volume growth across several indicators in April-May 2024, and fading impact of benign commodity prices portend a dip in the GVA growth momentum in Q1 FY2025. ICRA expects the GVA growth to moderate to 5.7% in Q1 FY2025 from 6.3% in Q4 FY2024. The extent of slowdown in the GDP growth would depend on the growth in indirect taxes as well as magnitude of subsidies booked by the Government in this quarter. ICRA expects the GVA growth to exceed 7.0% in H2 FY2025, with a back-ended pick up in capex, improvement in rural demand if the monsoon turns out to be favourable, and some recovery in external demand. Overall, ICRA estimates the GDP/GVA growth at 6.8%/6.5% in FY2025. While we estimate the CPI inflation at 4.6% in FY2025, the Monetary Policy Committee (MPC) is unlikely to change the stance and rates until there is greater clarity on the turnout of the monsoon, its impact on kharif output and the trajectory of food inflation. Consequently, ICRA foresees the earliest possible rate cut only in the December 2024 meeting. The fiscal dynamics and outlook for current account deficit appear benign for FY2025.

	FY2024	ICRA's projection for FY2025
GDP Growth (at 2011-12 prices)	8.2%	6.8%
GVA Growth (at 2011-12 prices)	7.2%	6.5%
CPI Inflation (average)	5.4%	4.6%
WPI Inflation (average)	-0.7%	3.3%
Current Account Deficit (CAD)	Deficit of $23.2 billion; 0.7% of GDP	Deficit of $40-44 billion; 1.1% of GDP
INR	INR to trade between 82.5-84.0/$ in remaining part of H1 FY2025	
G-sec Yields	10-year yield to range between 6.80-7.15% in remaining part of H1 FY2025	
GoI's Fiscal Deficit	5.6% of GDP	4.9%-5.1% of GDP
Policy repo rate	Rate cuts unlikely to begin before December 2024, amid shallow rate cut cycle of 50 bps at best	

GROWTH OUTLOOK FOR INDIA IN Q1 FY2025

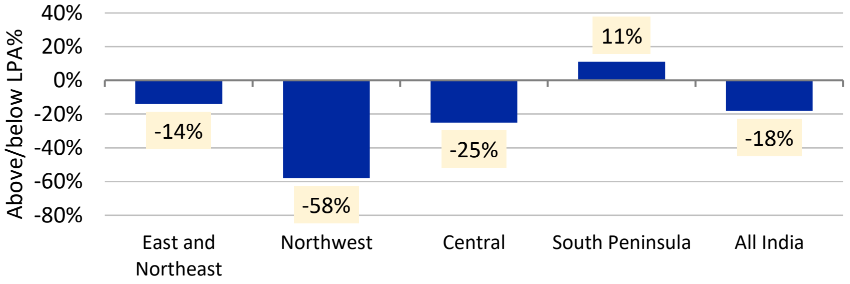
Output of most summer crops estimated to fall on a YoY basis; progress of Southwest monsoon has been tardy in June 2024 so far

EXHIBIT: Summer crop trends in Third Advance Estimates for 2023-24 compared to Final Estimates for 2022-23



Summer/Zaid crops are sown between February and May; Source: Ministry of Agriculture and Farmers' Welfare; ICRA Research

EXHIBIT: All-India and region wise cumulative rainfall departure from normal levels in ongoing Southwest Monsoon (June 1-23, 2024)

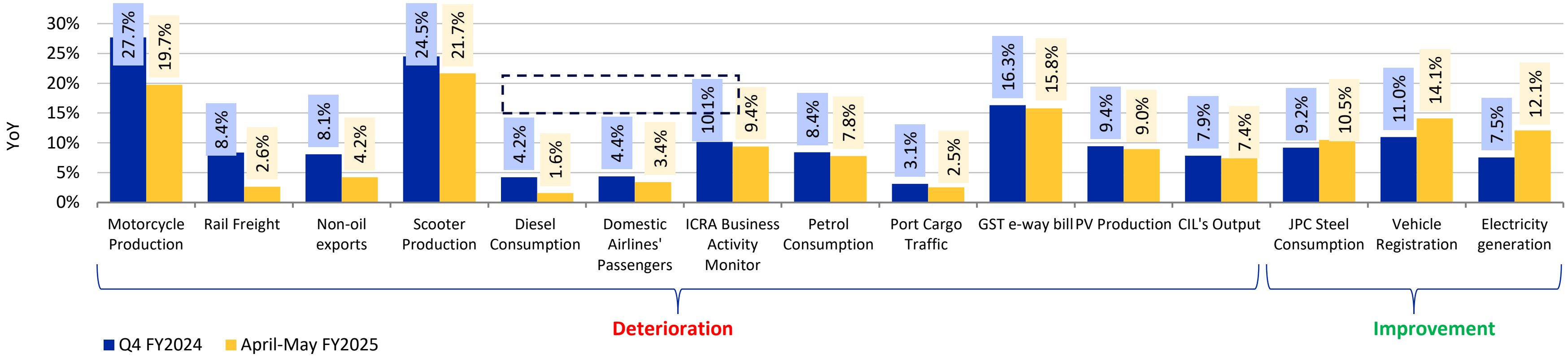


Source: IMD; CEIC; ICRA Research

- As per the third advance estimates for 2023-24 released by the Ministry of Agriculture and Farmers' Welfare, the output of summer crops such as rice (-12.4%) and coarse cereals (-4.1%) is estimated to decline on a YoY basis, amid a fall in yields. The output of summer pulses is also projected to decline by 9.3%, stemming from the lower acreage in 2023-24 vis-à-vis the previous year. In contrast, oilseeds' output is estimated to increase by a robust 12.2% owing to the rise in both sowing and projected yields. Additionally, the output of most rabi crops (barring pulses) has seen an upward revision in Third AE vs. Second AE, which will support the agri GVA growth in Q1 FY2025. **ICRA places the GVA growth of agriculture, forestry and fishing at ~2.0% in Q1 FY2025 (+3.7% in Q1 FY2024).**
- The IMD has predicted above-normal Southwest Monsoon at 106% +/-4% of the LPA for the season. However, the progress of the monsoon has been tardy so far, with cumulative rainfall at all-India level lagging normal levels by a steep 18% during June 1-23, 2024. Moreover, the spatial distribution has been uneven, with a surplus rainfall in South Peninsula and deficient rains in the other three regions amid ongoing heatwaves. This is likely to have impacted the sowing of kharif crops. Considering that typically 75% of overall sowing gets completed by the end of July, the advancement of Monsoon in coming weeks is crucial to facilitate the ramping up of sowing.

YoY growth in ICRA Business Activity Monitor dipped to 9.4% in April-May 2024 from 10.1% in Q4 FY2024

EXHIBIT: YoY performance of high frequency non-agri indicators in Q4 FY2024 and April-May of FY2025

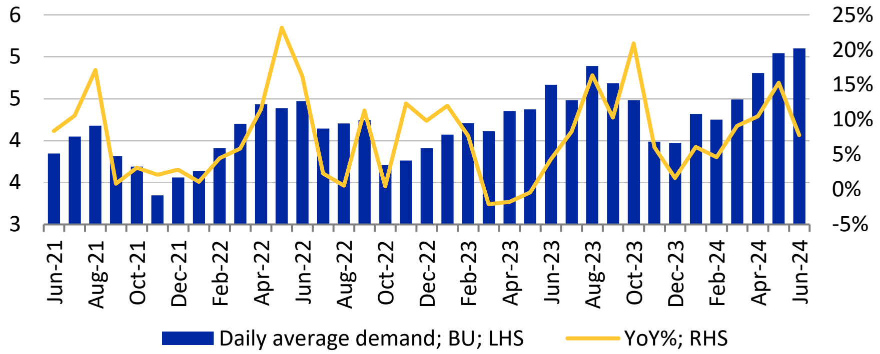


Source: CIL; Ministry of Commerce, GoI; Indian Railways; Indian Ports Association; JPC; RBI; PPAC; CMIE; PPAC; CEA; GSTN; DGCA; Ministry of Road Transport and Highways; CEIC; ICRA Research

- The YoY growth of the ICRA Business Activity Monitor - an Index of high frequency indicators, eased to 9.4% in YoY terms in April-May 2024 from 10.1% in Q4 FY2024, driven by deceleration in growth of as many as 11 of the 14 indicators, five of which, namely, rail freight (led by coal loading), non-oil exports (sluggish external demand), diesel consumption, domestic airlines' passenger traffic (capacity constraints and high base of last year) and cargo traffic at major ports (led by thermal coal and POL shipments) recorded a low single digit growth.
- In contrast, the growth in finished steel consumption (aided by demand from housing, capital goods segments), vehicle registrations (partly attributed to shift in Navratri in April instead of March last year), and electricity generation (amid strong demand owing to heatwaves) accelerated in April-May 2024 compared to Q4 FY2024.
- Notwithstanding the dip, the Index recorded a healthy expansion of 9.4% in YoY terms in April-May 2024, reflecting the strong growth performance of two-wheeler production, generation of GST e-way bills, finished steel consumption, vehicle registrations and electricity generation.

Early data for June 2024 points to a slowdown

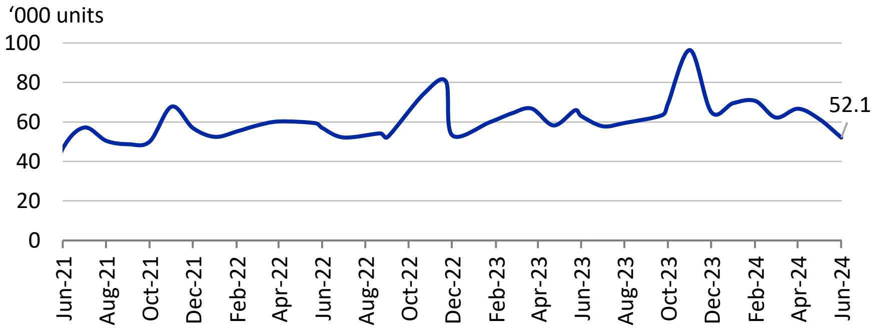
EXHIBIT: Daily average electricity demand at all-India level and YoY growth



Data for June 2024 is till June 23, 2024; Source: POSOCO; ICRA Research

- The all-India electricity demand increased by 7.8% YoY during June 1-23, 2024 (+5.9% in June 1-23, 2023) led by strong demand in northern region (+23.6%) owing to above-normal temperatures and heat waves. However, this entails a considerable moderation from seven-month high growth of 15.3% in May 2024 (-0.4% in May 2023) on account of the base effect.
- In absolute terms, the country witnessed record demand of 5.1 BU/day in June 2024 (during June 1-23; 5.0 BU/day in May 2024). A delay in the advancement of Monsoon over Northern India amid continued heatwave conditions are expected to keep the demand elevated.

EXHIBIT: Daily average vehicle registrations at all-India level

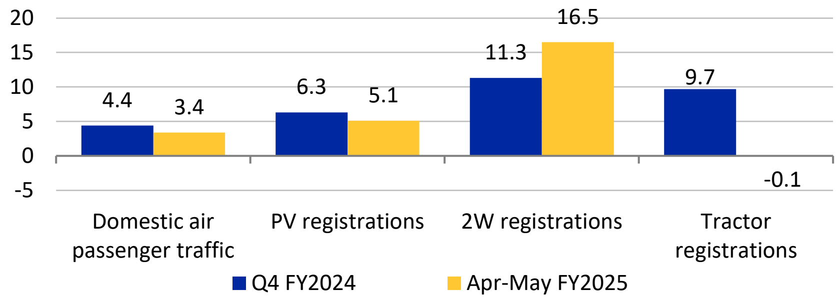


Data for June 2024 is till June 24, 2024; We have removed data for Andhra Pradesh and Madhya Pradesh to ensure comparability across time periods; Source: Vahan, MoRTH; CEIC; ICRA Research

- As per the data provided on the Vahan portal, the average daily vehicle registrations stood at 52.1k units during June 1-24, 2024, lower than the level recorded in the similar period of June 2023 (57.6k units).
- Heatwave conditions across some parts of the country impacted footfalls and walk-ins thereby leading to a deferment of purchase decisions.

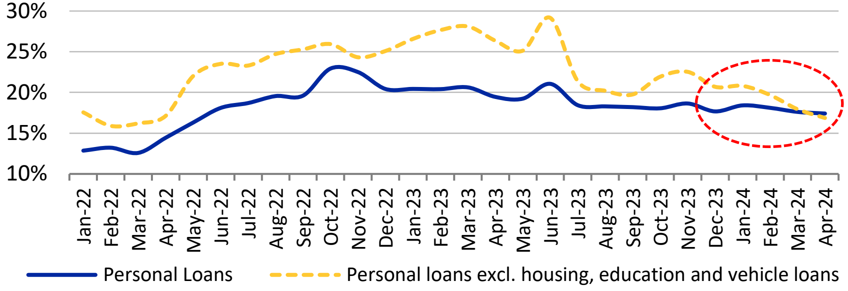
Urban consumer confidence saw unexpected dip

EXHIBIT: Trends in indicators pertaining to rural and urban demand (YoY%)



Source: ICRA Research

EXHIBIT: YoY growth trends in personal loans by banks



Excluding the impact of the HDFC-HDFC bank merger; Source: RBI; ICRA Research

- Urban consumer confidence, as measured by the current situation index of the RBI's consumer confidence survey that is conducted in 19 major cities unexpectedly dipped to 97.1 in May 2024 from the 30 round-high of 98.5 in March 2024.
- Moreover, the retail sales of PVs declined by 20% MoM in May 2024, in contrast with the typical sequential increase in the month, impacted by extreme heat and elections affecting footfalls and walk-ins. Additionally, hotel occupancy rate at premium hotels stood at 65-66% in April-May 2024, marginally lower than the year-ago levels, amid a temporary lull in business travel owing to General Elections.
- The credit growth in personal loans excluding housing, vehicle loans and education loans has moderated to 16.9% as on April 19, 2024 from 22.5% as on November 17, 2023, amid tightening of norms on unsecured lending by the RBI. The incremental credit to this segment stood at Rs. 1.2 trillion between November and April 2024, ~30% lower than the Rs. 1.7 trillion seen in the year-ago period. This may weigh on discretionary consumption of urban households to some extent.
- On the rural front, the tardy progress of the monsoons across Central and Northern India may keep sentiment jittery. The progress of monsoon and its impact on kharif sowing and output would be crucial to support a sustained pick up in rural demand over the next quarter.

Government capex recorded an unexpected uptick in April 2024, even as that for states declined

EXHIBIT: YoY trends in Gross capital expenditure of Centre and 21 state governments*

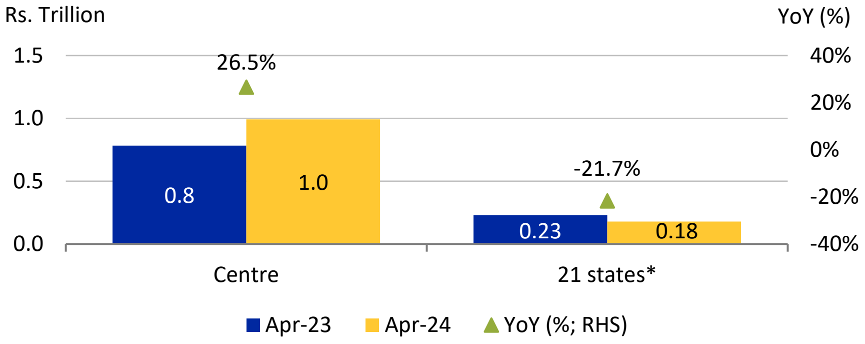
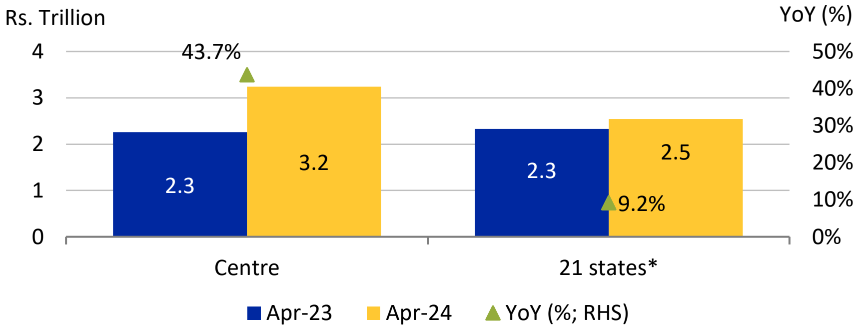


EXHIBIT: YoY trends in Revenue Expenditure of the Centre and 21 state governments*

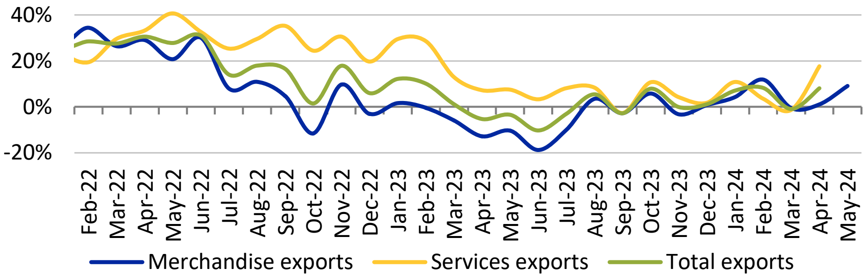


**21 states except Arunachal Pradesh, Assam, Goa, Manipur, Mizoram, Rajasthan, and Sikkim; Source: CGA; CAG; GoI; ICRA Research*

- The GoI's capex rose by a robust 26.5% YoY to Rs. 1.0 trillion in April 2024 (8.9% of FY2025 BE) from Rs. 0.8 trillion in April 2023 (8.3% of FY2024 Prov.), despite the prevailing Model Code of Conduct. On the contrary, the capital outlay and net lending by 21 state governments* declined by 21.7% to Rs. 179.3 billion in April 2024 from Rs. 229.0 billion in April 2023.
- Moreover, the YoY performance of some investment-related indicators such as the execution of National Highways (NH; YoY in April-May 2024: -12.1%) and cement output (+0.6% in April 2024) remained subdued in April-May 2024, even as that for finished steel consumption (+10.5%) was healthy.
- In contrast, the GoI's revex expanded by 43.7% to Rs. 3.2 trillion in April 2024 (8.9% of FY2025 BE) from Rs. 2.6 trillion in April 2023 (6.5% of FY2024 Prov.), led by an unexpected surge in interest payments (YoY: +167.6%), even as the outgo towards major subsidies declined (-22.9%). Notably, the YoY growth in non-interest non-subsidy revex was relatively lower at 15.7% in April 2024 (to Rs. 1.8 trillion from Rs. 1.5 trillion).
- The revenue spending by 21 states governments* rose by 9.2% to Rs. 2.5 trillion in April 2024 from Rs. 2.3 trillion in April 2023.

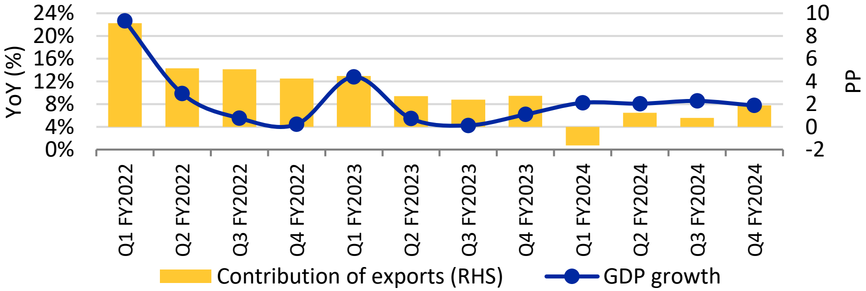
Exports unlikely to contribute significantly to real GDP growth in Q1 FY2025

EXHIBIT: YoY trends in India's merchandise and services exports



Services exports data for May 2024 is not available yet; Source: Ministry of Commerce; RBI; ICRA Research

EXHIBIT: Trends in real GDP growth and contribution of exports to GDP growth



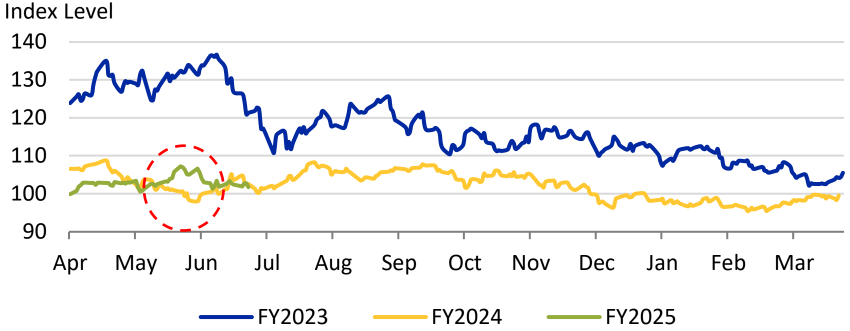
Source: NSO; CEIC; ICRA Research

- With a YoY growth of 1.1% in merchandise exports and a sharp 17.7% expansion in services exports in April 2024, the YoY uptick in total exports stood at 8.1% in that month, in contrast with the marginal dip of 0.9% seen in March 2024 (Q4 FY2024: +4.6%).
- Thereafter, merchandise exports rose by 9.1% YoY in May 2024, amid a 15.7% rise in oil exports and a 7.8% expansion in non-oil items. This pulled up the growth in such exports to 5.1% during April-May 2024, marginally higher than the 4.9% rise seen during Q4 FY2024.
- As per the NSO data, exports contributed 1.9 percentage points to the real GDP growth in Q4 FY2024, the highest in four quarters. Overall, the contribution of exports to the real GDP growth stood at a low 0.6 pp in the FY2024 provisional estimates (PE), relative to 3.0 pp in FY2023 first revised estimates (FRE). With total exports likely to grow in single digits in Q1 FY2025 (in nominal terms), their contribution to real GDP growth is likely to remain subdued in the quarter.
- **ICRA expects merchandise exports to witness some improvement in the latter part of FY2025, supported by a likely pick up in global demand after the rate cut cycle begins in some major economies. On the services front, exports of IT services may remain muted in FY2025, amid expectations of a muted 3-5% growth in revenues in ICRA's sample set of companies, stemming from the uncertainty in key markets. However, the export performance of non-IT services may remain healthy in FY2025, as seen in FY2024.**

Uptick in commodity prices and container freight rates likely to impact profitability of the manufacturing sector

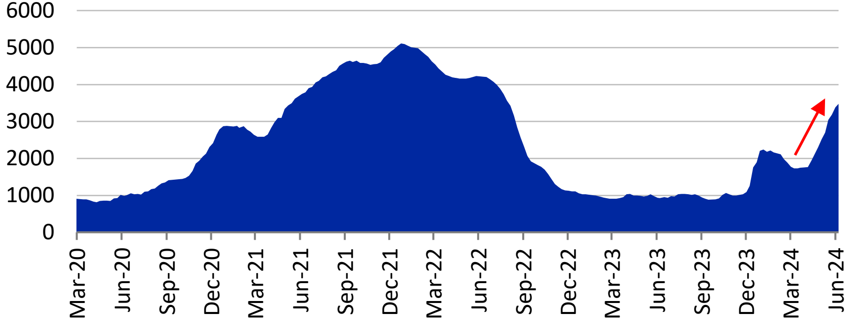
ICRA

EXHIBIT: Average quarterly trends in Bloomberg Commodity Price Index



Data for June 2024 is available till June 21, 2024; Source: Bloomberg; ICRA Research

EXHIBIT: Trends in Shanghai Shipping Exchange Shanghai (Export) Containerized Freight Index

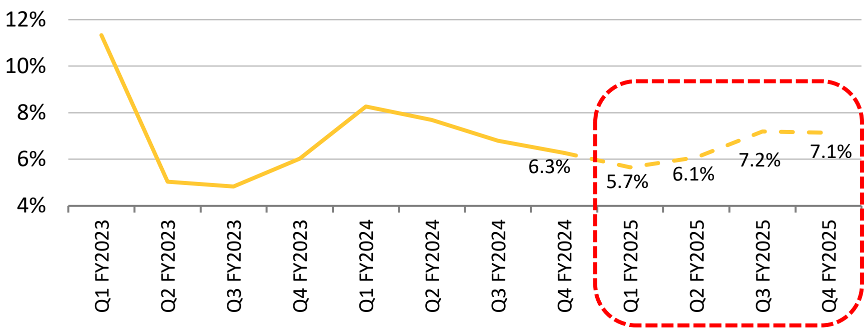


Data for June 2024 is available till June 21, 2024; Source: Bloomberg; ICRA Research

- After recording a deflation through FY2024 (-12.9% YoY on an average), global commodity prices are currently trending higher on a YoY basis in the ongoing fiscal, with the Bloomberg commodity index rising by 2.5% in May 2024 and 0.8% in June 2024 so far (up to June 21, 2024; -23.4% in June 2023). This is likely to impact the profitability of some industrial sectors such as manufacturing during the ongoing quarter.
- In addition, container freight rates have nearly tripled in the ongoing quarter, owing to disruptions in the Red Sea region. This continues to remain a monitorable, as it could further push up commodity and other input prices.

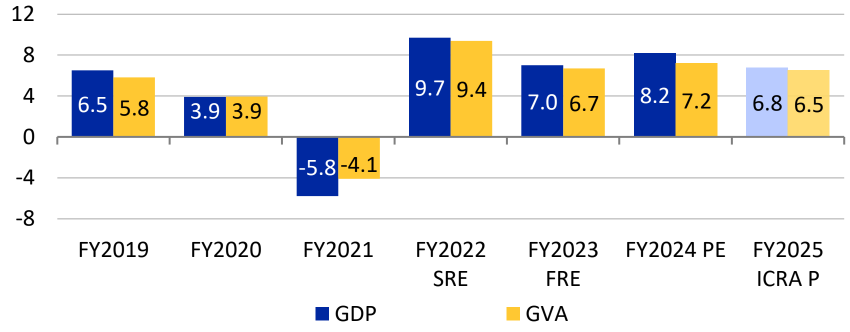
GVA growth to ease in Q1 FY2025 and pick up thereafter

EXHIBIT: Quarterly GVA growth (YoY; %) at constant 2011-12 prices



Dotted lines represent ICRA's projections; Source: NSO; ICRA Research

EXHIBIT: Annual GDP and GVA growth (YoY; %) at constant 2011-12 prices



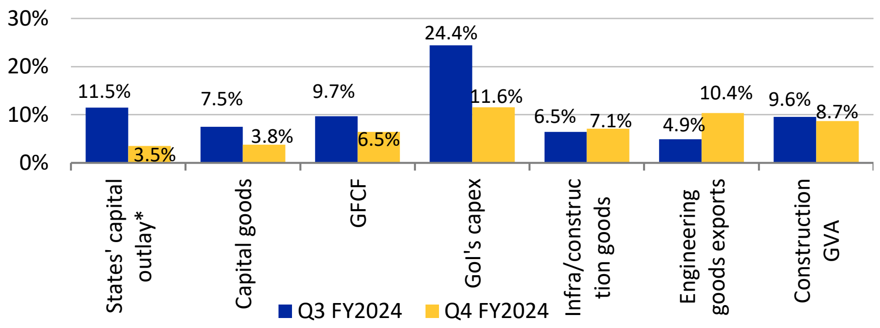
FRE/SRE: First/Second Revised Estimates; PE: Provisional Estimates; P: Projected; Source: NSO; ICRA Research

- Given the weaker volume growth across several high frequency indicators, less benign commodity prices, uneven rainfall, and a slowdown in project execution and capital spending by the GoI owing to the General Elections, ICRA anticipates a moderation in the GVA growth to 5.7% in Q1 FY2025 from 6.3% in Q4 FY2024. The extent of the slowdown in the GDP growth in Q1 FY2025 would depend on the growth in indirect taxes as well as magnitude of subsidies booked by the Central and State Government in this quarter.
- ICRA expects the GVA growth to exceed 7% in H2 FY2025, with a back-ended pick-up in capex, improvement in rural demand if the monsoon turns out to be favourable, and some recovery in external demand.
- **Overall, ICRA expects the GVA growth to print at 6.5% in FY2025 (+7.2% in FY2024 PE). Further, we foresee a smaller wedge between the GVA and GDP growth in FY2025 as compared to FY2024. As a result, ICRA expects the GDP expansion to decelerate to 6.8% in FY2025 from 8.2% in FY2024 PE.**

UPDATE ON PROJECT ACTIVITY

YoY growth in GFCF moderated in Q4 FY2024, amid slower expansion in the GoI's capex; new and completed projects surged in that quarter

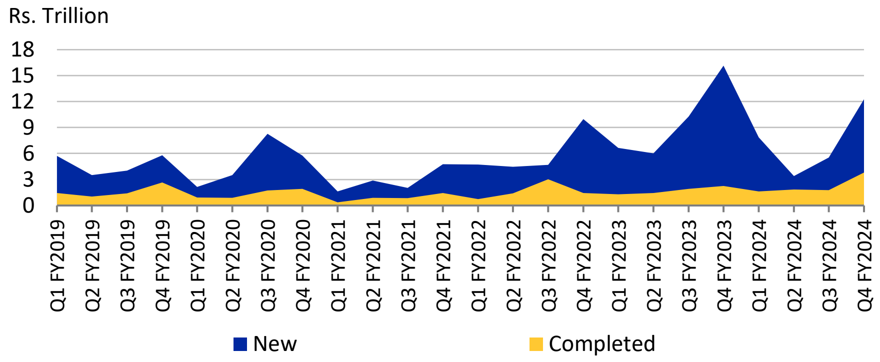
EXHIBIT: YoY (%) trends in GFCF, capital goods, GoI capex and states' capex



**25 states except Arunachal Pradesh, Goa, and Manipur; data is for capital outlay and net lending; GFCF: Gross Fixed Capital Formation; Source: NSO; CGA; CAG; GoI; ICRA Research*

- The YoY growth in gross fixed capital formation (GFCF) had eased to 6.5% in Q4 FY2024 from 9.7% in Q3 FY2024. This can be partly attributed to a weaker expansion in the aggregate capital outlay and net lending of 25 state governments* (to +3.5% from +11.5%) and Centre's gross capex (to +11.6% from +24.4%), as well as capital goods' output (to +3.8% from +7.5%).
- In contrast, the YoY growth in some of the other investment-related indicators such as the output of infrastructure/construction goods output (to +7.1% from +6.5%) and engineering goods exports (to +10.4% from +4.9%) improved in Q4 FY2024 vis-à-vis Q3 FY2024.

EXHIBIT: New and completed investment projects



As on June 18, 2024; Source: CMIE, ICRA Research

- New project announcements jumped to a four-quarter high of Rs. 12.3 trillion in Q4 FY2024, marking the second-highest amount of proposals in any quarter so far. **Implicitly, the aggregate cost of new investments during Feb-Mar 2024 slowed to Rs. 2.8 trillion from Rs. 9.5 trillion in Jan 2024, suggesting some transient caution amid the onset of the Model Code of Conduct. The uncertainty around Elections is likely to have kept new announcements subdued in Q1 FY2025.**
- Project completions also rose sharply to Rs. 3.8 trillion in Q4 FY2024 from Rs. 1.8 trillion in Q3 FY2024, surpassing the Rs. 3.5 trillion-mark for the first time. This was nearly double the quarterly average completion cost of Rs. 1.8 trillion seen during 9M FY2024, as well as Rs. 1.7 trillion in FY2023.

Capacity utilisation expected to have witnessed a seasonal uptick in Q4 FY2024

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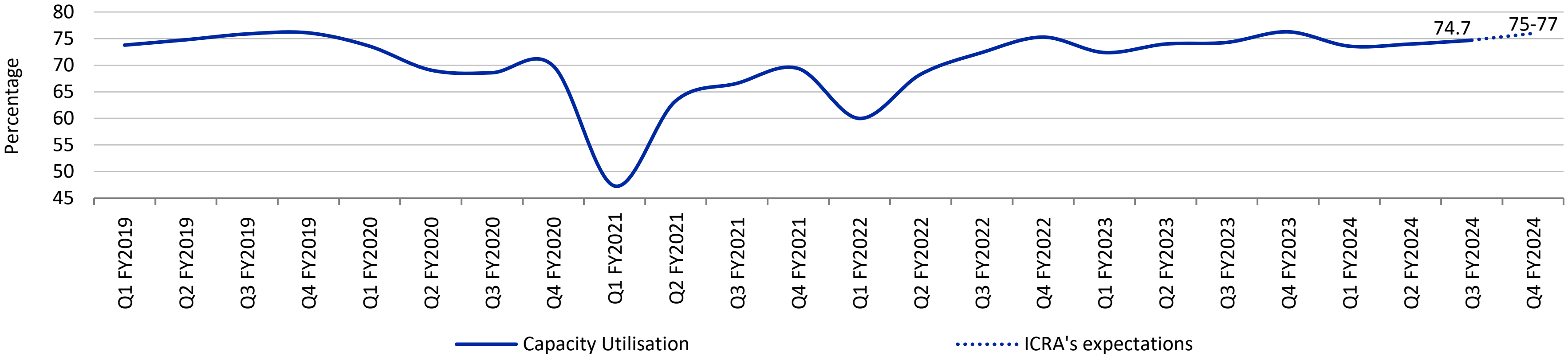
EXHIBIT: Quarterly trends in Capacity Utilisation



Source: RBI; CEIC; ICRA Research

- In the June 2024 monetary policy review, the RBI Governor had highlighted that as per early results, the capacity utilisation (CU) of the manufacturing sector had risen to 76.5% in Q4 FY2024 from 74.7% in Q3 FY2024, reaching well above the long-term average of 73.8%.
- **The sustenance of domestic demand amid global headwinds would impact the CU over the next couple of quarters and influence the pace of incremental capacity addition announcements through H1 FY2025. In ICRA's view, the private sector capex cycle is likely to be measured and not excessively exuberant over the next few years. Capacity expansion has been announced in a number of sectors as captured over the next few slides.**

Cement and steel CU expected to inch up to multi-year highs in FY2024-25, supported by strong domestic demand

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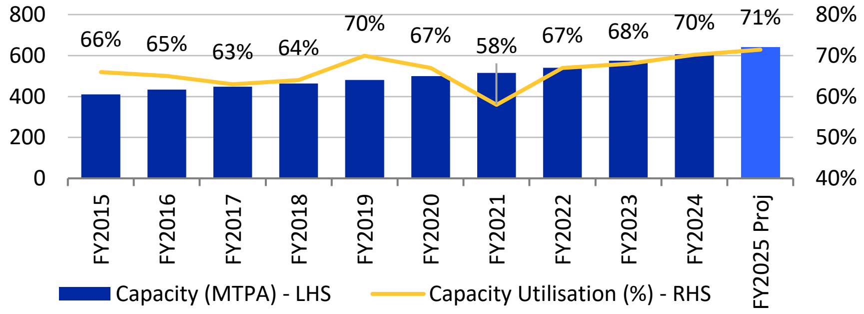
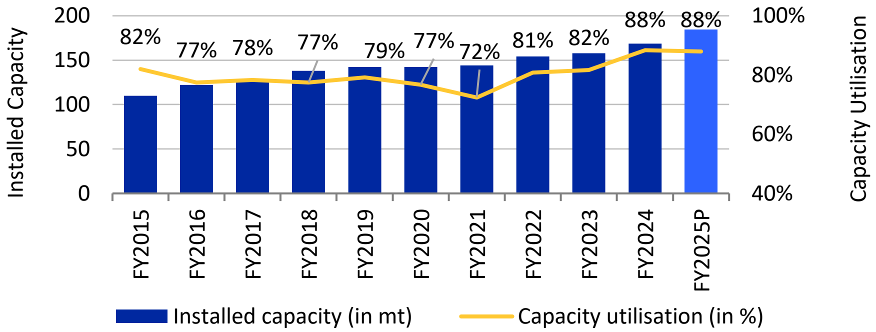
EXHIBIT: Annual trends in cement capacity utilisation



Proj: Projected; Source: Company Announcements and Media Releases, Company Annual Reports, Cement Manufacturers Association, Office of Economic Advisor, ICRA estimates

- The YoY expansion in cement production dipped sharply to 0.6% in April 2024 from 8.0% in Q4 FY2024, amid an adverse base.
- **ICRA expects cement output to grow by 7-8% YoY to around 455-460 million MTPA in FY2025 (+9.0% in FY2024).** The volumetric growth will be impacted by the slowdown in construction activity owing to the General Elections in Q1 FY2025.
- **The capacity utilisation is expected to inch up to 71% in FY2025 from 70% in FY2024, backed by higher cement volumes, while remaining moderate on an expanded base.**
- Notably, some regions like the North, the North-east, the East and Central India are likely to have utilisation higher than the national average in FY2025. In contrast, regions like the South have moderate utilisation, given the capacity overhang.

EXHIBIT: Annual trends in steel capacity utilisation

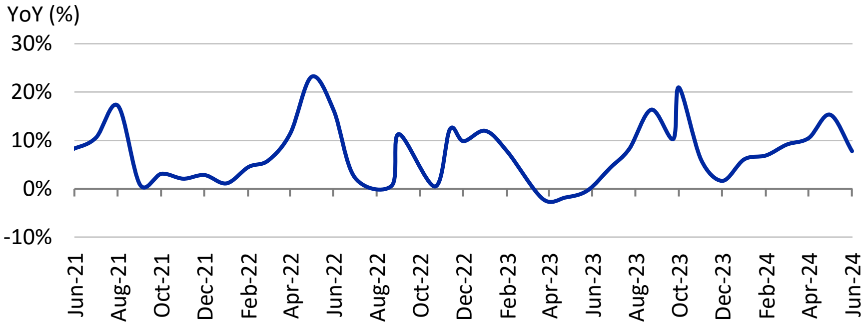


P: Projected; Source: Ministry of Steel; JPC; ICRA Research

- The growth in domestic steel demand rose to 10.5% YoY during Apr-May 2024 from 9.2% in Q4 FY2024. **While** **steel demand** **growth is expected to moderate in FY2025 from 13.6% in FY2024, with an estimated slowdown in the pace of expansion in the GoI's capex in the ongoing fiscal, it is expected to remain healthy at 9-10%.**
- India's finished steel exports rose by 11.5% YoY to 7.5 MT in FY2024. Going forward, exports are expected to be slightly higher at ~8.1 MT in FY2025, implying a YoY growth of ~7-8%, given the subpar global economic outlook in most of the large key steel-consuming regions as well as increased competition with Chinese mills.
- **ICRA expects the steel CU to remain elevated at a decadal high of ~88% in FY2025, similar to FY2024, driven by strong domestic demand.**

All-India thermal PLF expected to remain above ~69% in FY2025, led by demand growth of 6.0%

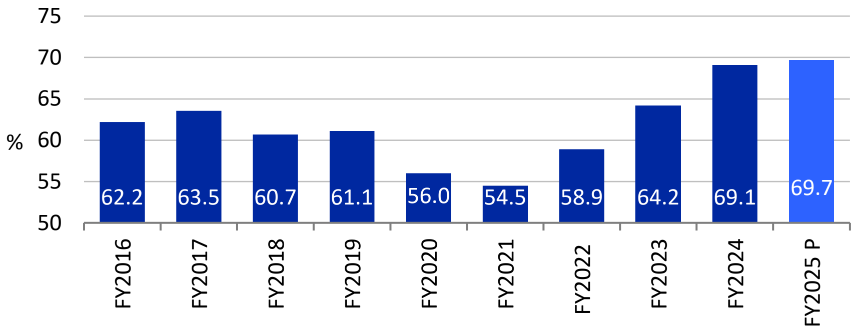
EXHIBIT: All-India Electricity demand



Data for June 2024 is till June 23, 2024; Source: POSOCO; CEIC; ICRA Research

- The YoY growth in all-India electricity demand eased to 7.8% during June 1-23, 2024, from 15.3% in May 2024. Moreover, the average demand levels surged to a record-high of 5.1 BU/day in June 2024 from 5.0 BU/day seen in May 2024.
- **Overall, electricity demand growth is estimated to moderate to 6.0% in FY2025 from 7.2% in FY2024, albeit remaining healthy.**
- The average spot power tariff in the DAM rose to a five-month high of Rs. 5.5/unit in June 2024 (up to June 23, 2024) from Rs. 5.3/unit in May 2024. **Going ahead, spot power tariffs are likely to moderate in FY2025 from Rs. 5.2/unit seen in FY2024, given the decline in open market coal prices, including imported coal, moderation in demand growth and rise in installed power generation capacity.**

EXHIBIT: Annual trends in all-India PLF for thermal power plants

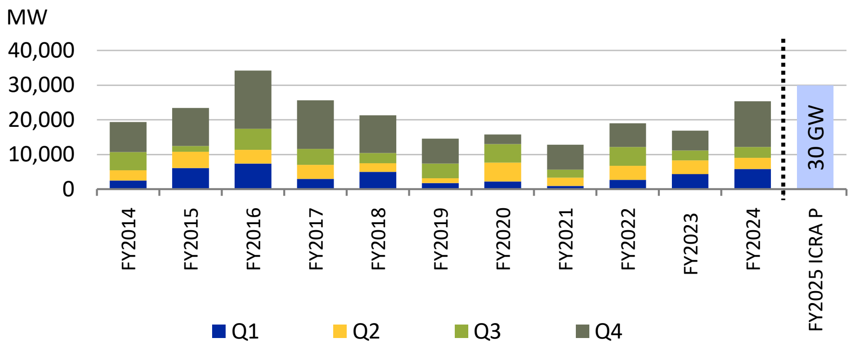


P: Projected; Source: CEA; ICRA Research

- The all-India average thermal plant load factor (PLF) improved to 69.1% in FY2024 from 64.2% in FY2023.
- **Further, it is estimated to remain above ~69% in FY2025, led by the expected demand growth of 6.0% and limited capacity additions in the thermal segment.**
- **While the improvement in thermal PLF is likely to sustain in the near to medium term, this would remain under pressure over the long term, given the growing share of RE in the generation mix. The extent of shift from thermal to RE, would be linked to the improvement in viability of energy storage economics and policy support for the same.**

Power generation capacity addition to rise to ~30 GW in FY2025 from 25.4 GW in FY2024

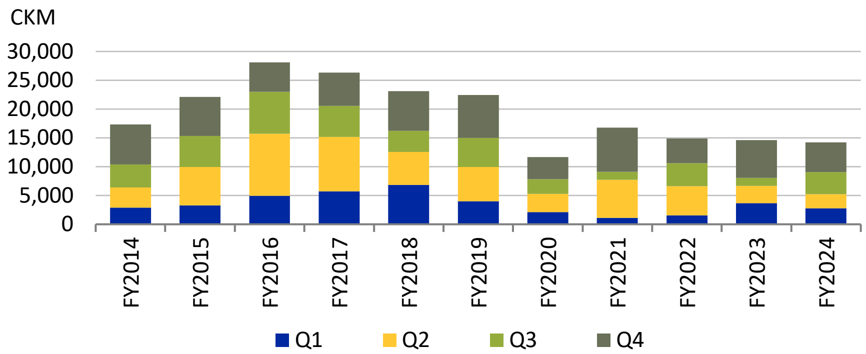
EXHIBIT: Trends in power generation capacity addition



P: Projected; Source: CEA; ICRA Research

- Power generation capacity addition surged to 13.3 GW in Q4 FY2024 from 5.7 GW in Q4 FY2023, and stood at 25.4 GW in FY2024 as a whole.
- **ICRA expects power capacity addition to improve to over ~30 GW in FY2025 from 25.4 GW in FY2024, led by the increase in renewable (RE) capacity.**

EXHIBIT: Trends in power transmission capacity addition

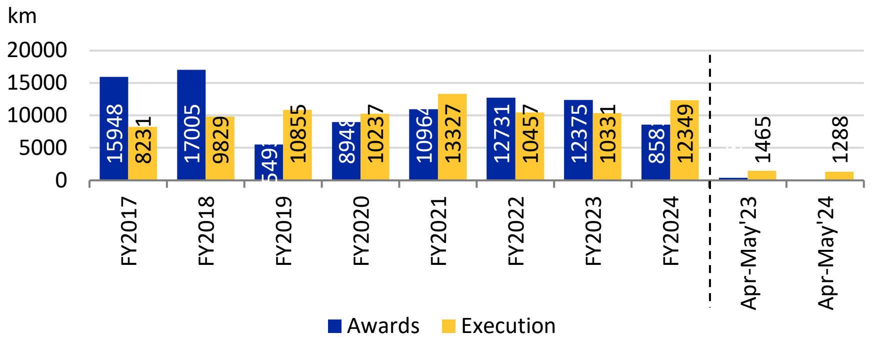


Source: CEA; ICRA Research

- The transmission line addition fell sharply to 5,156 CKMs in Q4 FY2024 from 6,546 CKMs in Q4 FY2023. Moreover, additions in FY2024 (14,203 CKMs) trailed the year-ago levels (14,625 CKMs) by a marginal 2.9%.
- **With the healthy progress in award of new transmission projects by Central nodal agencies in the current fiscal, the capacity addition is expected to pick up going forward.**

National highways construction to rise by 5-8% in FY2025; hotel occupancy levels to improve aided by leisure and business travel, demand from MICE

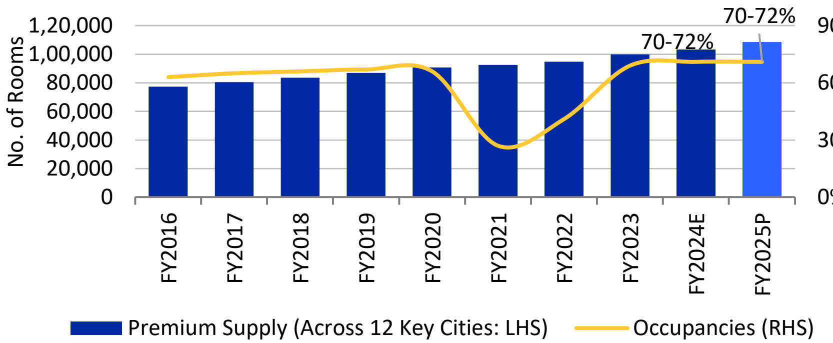
EXHIBIT: Trends in road awards and execution



Source: MoRTH; ICRA Research

- The execution of national highways (NHs) improved by ~20% YoY to 12,349 km in FY2024, reaching the second highest execution level ever in a financial year (record: 13,327 km in FY2021), aided by increased spending by the Government.
- However, the awarding activity decreased to 8,581 km in FY2024 from 12,375 km in FY2023, (GoI's target: 13,290 km), partly owing to the delays in obtaining the revised Cabinet approval for the Bharat Mala project.
- **Going ahead, ICRA expects the awarding activity to remain subdued in Q1 FY2025 owing to the Model Code of Conduct and thereafter, gain pace from Q2 FY2025. Further, we expect execution to rise by a healthy 5-8% to 12,500-13,000 km in FY2025.**

EXHIBIT: Annual trends in premium hotel occupancy



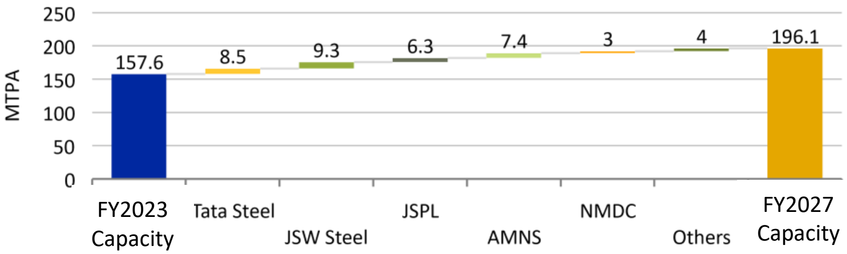
E: Estimate; P: Projected; Source: ICRA Research

- The pan-India premium hotel occupancy printed at a decadal high of 70-72% in FY2024.
- **Going ahead, ICRA estimates the all-India premium hotel occupancy to remain elevated at 70-72% in FY2025, supported by a healthy demand amid sustenance of leisure travel, demand from MICE and business travel.**

Capacity expansion plans announced by certain sectors – I

ICRA

EXHIBIT: Domestic steel capacity addition plans likely to gather pace during FY2024-27



Source: Ministry of steel; ICRA Research

EXHIBIT: Domestic players on capital expansion spree in basic metals space

NALCO to invest $3.9 bn by FY2028 for expansion of its mines, refinery, CPP, etc.

BALCO to invest $1.0 bn for 0.42 MMT increase in aluminum smelting capacity

HINDALCO to invest $3 bn over 5 years for expansion of downstream facilities

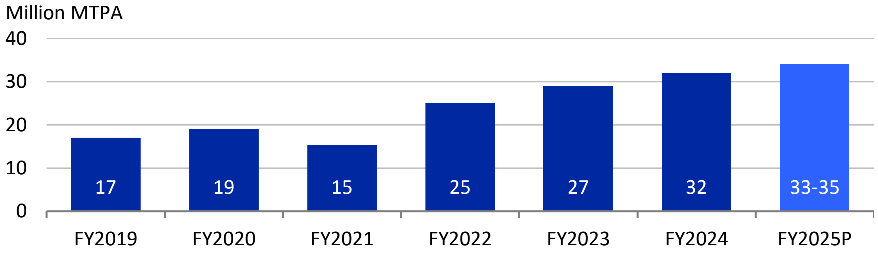
VEDANTA has earmarked $1.4 bn over 2 years to improve vertical integration

Adani enterprises to invest $5.2 bn for setting up 4 MMT integrated alumina refinery, and 1 MTPA copper plant

HINDUSTAN ZINC and COPPER to invest $0.4 bn and $0.5 bn, resp. for mine expansion

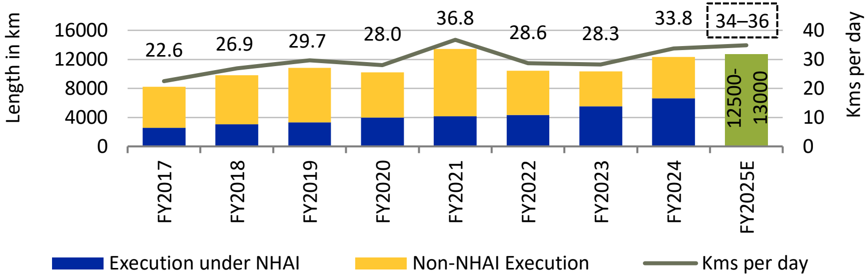
Source: ICRA Research

EXHIBIT: Increase in cement capacity expected at 33-35 MTPA in FY2025, driven by healthy demand prospects



P: Projected; Source: Annual reports of 12 listed cement companies - ICRA's sample includes ACC Limited (ACC), Ambuja Cements Limited (ACL), JK Cements Limited (JKCL), JK Lakshmi Cement Limited (JKLC), The India Cements Limited (ICL), The Ramco Cements Limited (RCL), UltraTech Cement Limited (UCL), Dalmia Bharat Limited (DBL), Birla Corporation Limited (BCL), Shree Cement Limited (SC), Sagar Cements Limited (SCL), Heidelberg Cement India Limited (HCL); Investor presentations, ICRA Research

EXHIBIT: Road execution momentum to sustain in FY2025; execution to grow by 5-8% in FY2025 to 12,500-13,000 km



E: Estimated; Source: MoRTH; ICRA Research

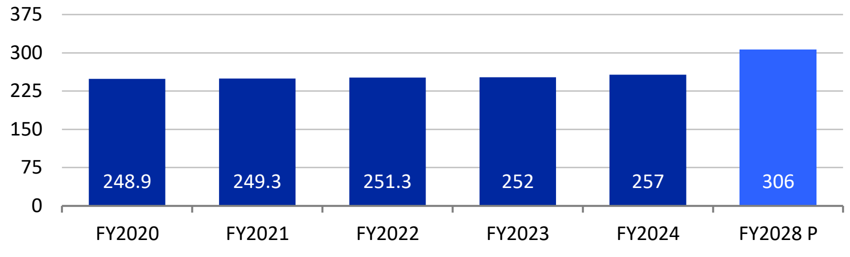
Capacity expansion plans announced by certain sectors – II

EXHIBIT: Capex plans of upstream oil companies would remain largely intact, given healthy net realisation for crude

Company	Capex (Rs. billion)
ONGC-Standalone	300-320/annum
Oil India Limited	40/annum
Vedanta Limited	$4-5 billion*
Reliance Industries	350 (KG basin block) over 4-5 years
ONGC Videsh Limited	50-90/annum

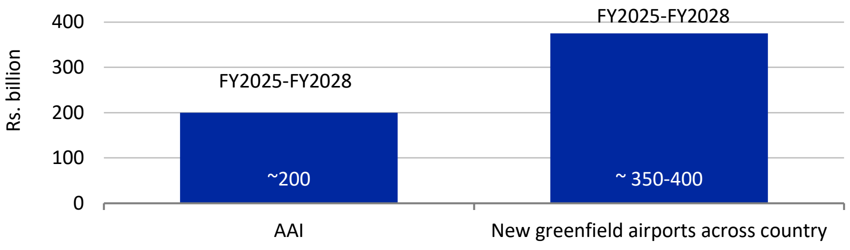
**To increase total production to 300,000 kopd in medium term; Source: ICRA Research*

EXHIBIT: Large expansions are proposed in domestic refining capacity (MMTPA; outstanding)



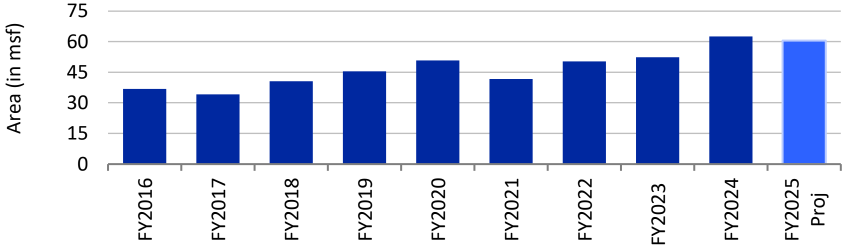
Values as at end-March; P: Proposed; Source: PPAC; ICRA Research

EXHIBIT: Committed investments of around Rs. 550-600 billion are in the pipeline to develop airport infrastructure during the period FY2025-FY2028



Source: AAI; ICRA Research

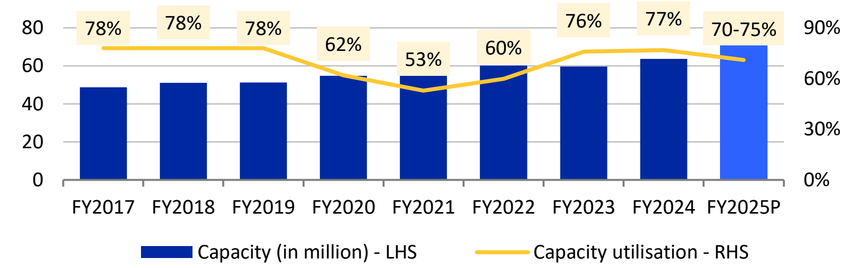
EXHIBIT: Incremental supply for commercial real estate for top 6 Indian office markets likely to be around 60-62 msf in FY2025



Note: Six Indian office markets include Bengaluru, Delhi NCR, Hyderabad, Pune, Mumbai, Chennai; Source: Propequity, ICRA Research

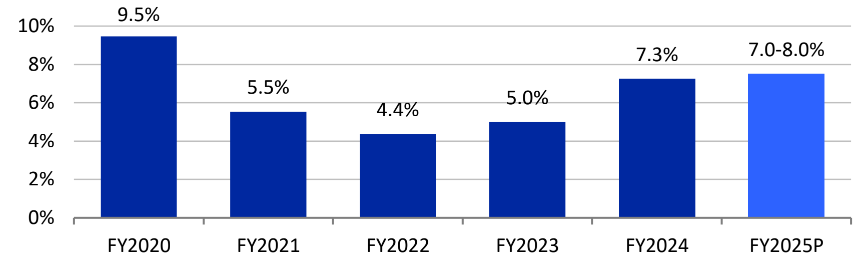
Capacity expansion plans announced by certain sectors – III

EXHIBIT: While addition of new capacities will lead to moderation in CU levels of PV companies, it is unlikely to dip sharply in FY2025 amid healthy demand



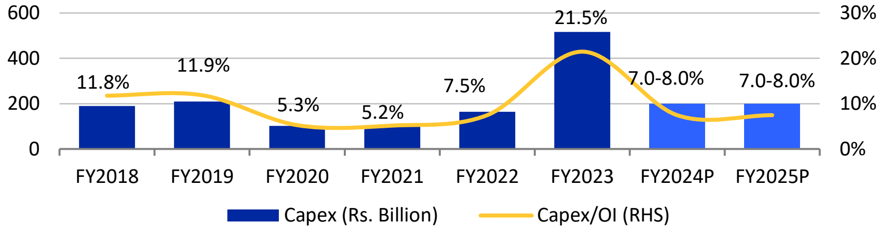
P: Projected; Source: ICRA Research, SIAM

EXHIBIT: Capex as % of sales expected at 7.0-8.0% for India's large Auto Ancillaries led by capacity enhancements and technological developments



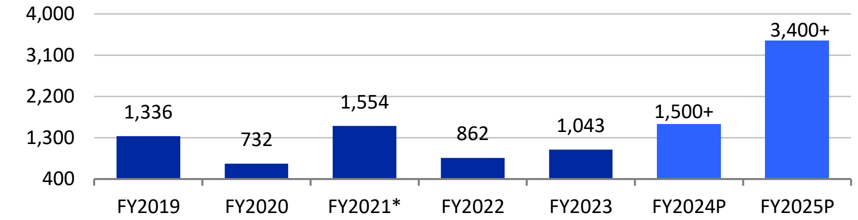
Source: ICRA Research; sample of large auto ancillaries across various product segments

EXHIBIT: Continued capex expected in the pharmaceutical space



Source: Company data, ICRA's sample set includes Abbott India Limited, Aurobindo Pharma Limited, Biocon Limited, Cipla Limited, Dr. Reddy's Laboratories Limited, Glenmark Pharmaceuticals Limited, Indoco Remedies Limited, Jubilant Pharmanova Limited, Lupin Limited, Natco Pharma Limited, Pfizer Limited, Sun Pharmaceuticals Limited, Torrent Pharmaceuticals Limited, Unichem Laboratories Limited, Wockhardt Limited, Zydus Lifesciences Limited

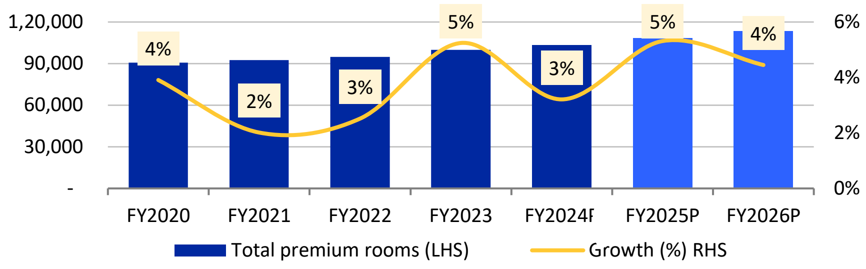
EXHIBIT: Hospital bed additions for ICRA sample set to double in FY2025



*Source: ICRA's sample set includes hospital business of Apollo Hospitals Enterprise Limited, Fortis Healthcare Limited, Narayana Hrudayalaya Limited, Aster DM Healthcare Limited (India business only), Max Healthcare Institute Limited, Healthcare Global Enterprises Limited, and Shalby Limited: ICRA Research; *includes ~900 incremental beds with Max Healthcare's merger with Radiant*

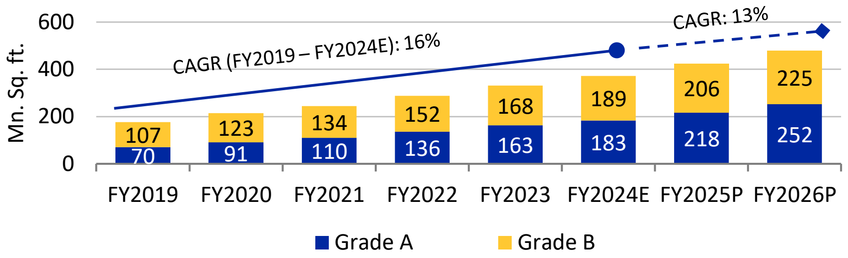
Capacity expansion plans announced by certain sectors – IV

EXHIBIT: Estimated supply addition for hotels lower than demand growth over the period FY2023-26



P: Projected; Source: ICRA Research; supply addition estimated in Q4 of a financial year is factored in the pipeline of the next financial year for analytical purposes

EXHIBIT: Warehousing supply space estimated to grow at a CAGR of 13% during FY2024-26



**For top 8 cities include Ahmedabad, Bengaluru, Chennai, Hyderabad, Kolkata, Mumbai, NCR and Pune; Source: ICRA Research, Various IPCs; E: Estimated, P: Projected*

EXHIBIT: Capex requirements for telecom industry

Excluding the spectrum acquisition, the annual capex for telecom industry is expected to be around Rs. 650-700 billion for network upgradation and expansion. For rollout of 5G services, ICRA expects that it will not be carpet-bombing, but rather witnessing a phased launch in specific pockets, largely metros and Tier-I cities to start with. With this, ICRA expects a capex of ~Rs. 3.0 trillion over the next 4-5 years.

For ICRA sample of 3 entities: Bharti Airtel Limited, Vodafone Idea Limited and Reliance Jio Infocomm Limited; Source: ICRA Research

EXHIBIT: Capex plans for data centres

Investments amounting to Rs. 1.6 trillion are in the pipeline for this industry over the next six years, with a combined power capacity of 5.1-5.2 GW. These centres are intended to be set up in cities such as Mumbai, Chennai, Pune, Kolkata, Gujarat, Bangalore, Pune, Hyderabad, Delhi and Noida.

Source: ICRA Research; media articles

UPDATE ON FINANCING

Growth in total financing remained stable at 10.8% at end-March 2024, vis-à-vis end-December 2023

EXHIBIT: Outstanding Bank credit to large industry and services, corporate bonds and CP volumes

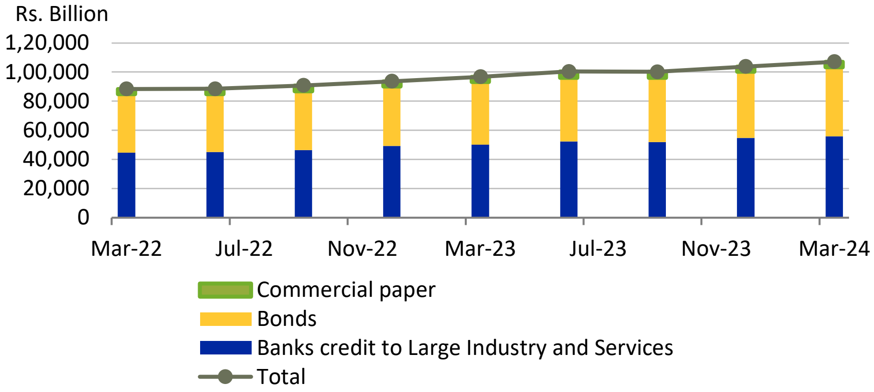
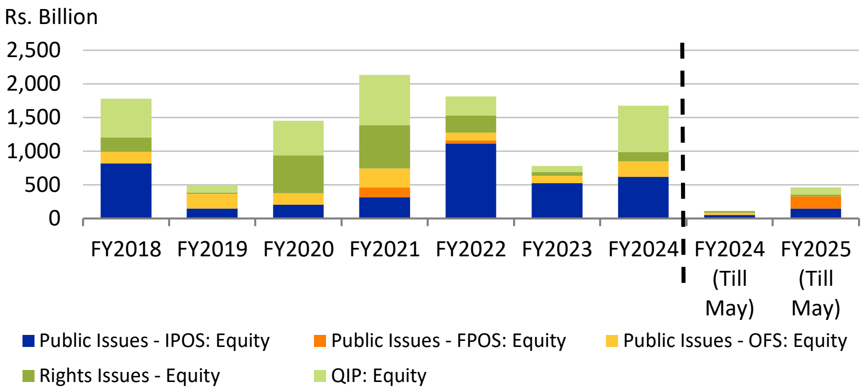


EXHIBIT: Trends in domestic equity funds raising

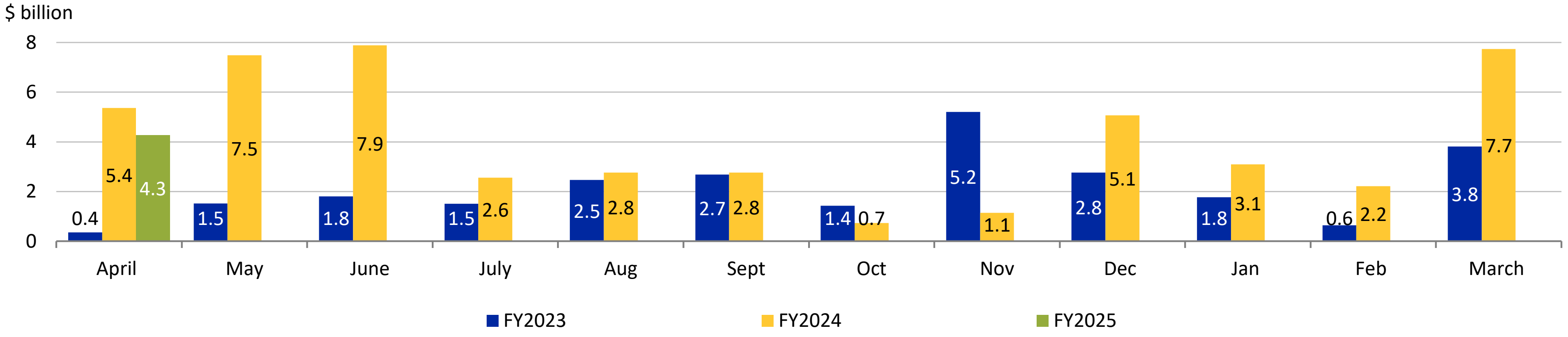


- The YoY growth in total financing* remained steady at 10.8% at end-March 2024, similar to the levels seen at end-December 2023, while printing in double-digits for the fourth consecutive quarter. The YoY expansion in outstanding CPs (to +9.9% at end-Mar 2024 from +1.3% at end-Dec 2023) and bank credit (to +11.8% from +11.0%) rose at end-March 2024 vis-à-vis end-December 2023. However, this was partly offset by the moderation in growth in outstanding corporate bonds (to +9.6% from +11.3%) between these quarters.
- Moreover, the expansion in financing at end-Mar 2024 displayed an uptick from the year-ago level of 9.4% at end-March 2023, led by a rise in the growth of outstanding CPs (+9.9% vs. +0.4%) and corporate bonds (+9.6% vs. +7.4%), while the YoY expansion in bank credit (+11.8% vs. +12.0%) eased slightly.
- Domestic equity funding more-than-doubled to Rs. 1.7 trillion in FY2024 from Rs. 0.8 trillion in FY2023. Thereafter, such funding stood Rs. 462.0 billion during April-May FY2025, considerably higher than the year-ago level of Rs. 113.7 billion. Additionally, the net FII-equity segment recorded outflows amounting to $2.6 billion in Q1 FY2025 so far (up to Jun 21, 2024; +$1.3 billion in Q4 FY2024), partly owing to the uncertainty regarding the General Elections. **Going ahead, an escalation in geopolitical tensions, expectations of rate cuts in the US and their implications for the DXY and INR, as well as the strength of domestic earnings are likely to impact FII-equity inflows in FY2025.**

**Through bank credit to large industry and services, CP and corporate bonds; Source: RBI; SEBI; Prime Database; ICRA Research*

ECB approvals expected to moderate in FY2025, owing to back-ended decline in global borrowing costs, while remaining healthy

EXHIBIT: Monthly Gross external commercial borrowings (ECB) volumes



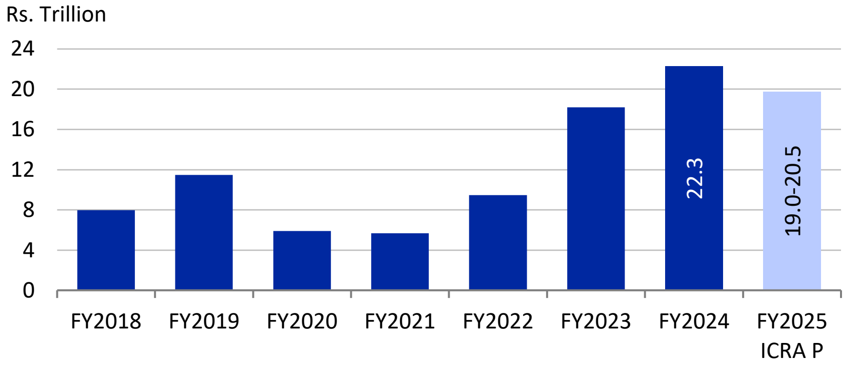
Source: RBI; ICRA Research

- The cumulative gross ECB approvals surged to $48.8 billion in FY2024 from $26.0 billion in FY2023. This was mainly driven by capex-related approvals, including those for modernisation (to $6.9 billion in FY2024 from $1.2 billion in FY2023), rupee expenditure on local capital goods (to $6.9 billion from $2.3 billion), import of capital goods (to $4.0 billion from $2.7 billion), and new projects (to $5.0 billion from $3.4 billion); together, these accounted for ~47% of the total ECB approvals in FY2024.
- Thereafter, ECB approvals printed at $4.3 billion in April 2024, 20.1% lower than the year-ago level of $5.4 billion. On-lending/sub-lending ($1.9 billion in April 2024 vs. $1.3 billion in April 2023; share in total: ~44%), refinancing of earlier ECB ($0.6 billion vs. nil; ~15%), and new projects ($0.4 billion vs. $0.3 billion; ~9%) accounted for nearly ~68% of the total approvals in that month.
- **ECB approvals are expected to remain sizeable at $40-45 billion in FY2025, albeit lower than the levels seen in FY2024. Going forward, a broad-based surge in ECB approvals is unlikely in the near term, with global borrowing costs expected to only witness a back-ended moderation in FY2025. The timing of rate cuts in India and their transmission to domestic bank lending rates would also impact the demand for ECBs.**

Non-food bank credit growth expected to moderate to 11.6-12.5% in FY2025

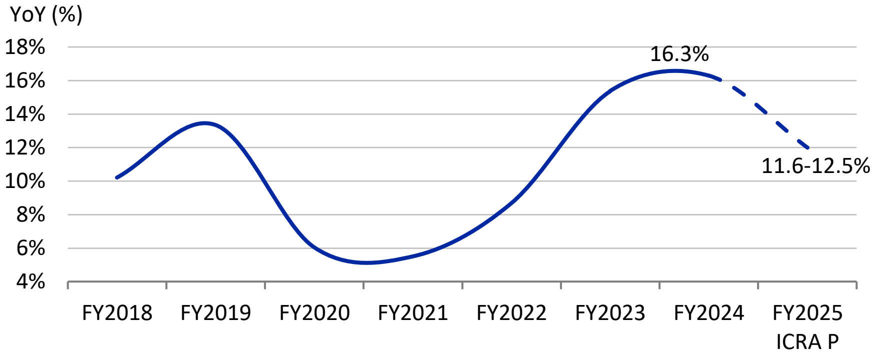
ICRA

EXHIBIT: Trends in incremental non-food bank credit



Note: FY2025 includes the impact of HDFC and HDFC bank merger; P: Projected; Source: RBI; ICRA Research

EXHIBIT: YoY trends in outstanding non-food bank credit



Note: FY2025 includes the impact of HDFC and HDFC bank merger; P: Projected; Source: RBI; ICRA Research

- The incremental non-food bank credit expansion of Rs. 22.3 trillion in FY2024 (excluding the impact of the HDFC-HDFC bank merger) was the highest-ever credit increase in any year, far outpacing the Rs. 18.2 trillion seen in FY2023. This translated to a robust YoY growth of 16.3% in outstanding non-food bank credit in FY2024 (+15.4% in FY2023).
- Subsequently, the incremental credit expansion stood at Rs. 3.5 trillion by May 31, 2024 (+Rs. 3.2 trillion during similar period of FY2024). **Going ahead, growth is expected to ease in FY2025 on the back of tight liquidity and slackening of growth in retail and consumer segments. ICRA estimates incremental expansion at Rs. 19.0-20.5 trillion in FY2025 (YoY growth in outstanding non-food bank credit at 11.6-12.5%; including the impact of the HDFC merger).**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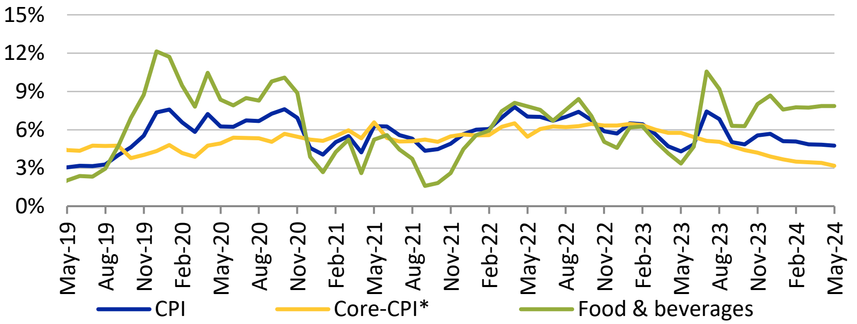
INFLATION

CPI inflation to ease to 4.6% in FY2025 assuming an above-normal, well-distributed monsoon; WPI inflation to average at 3.3% on account of low base

ICRA

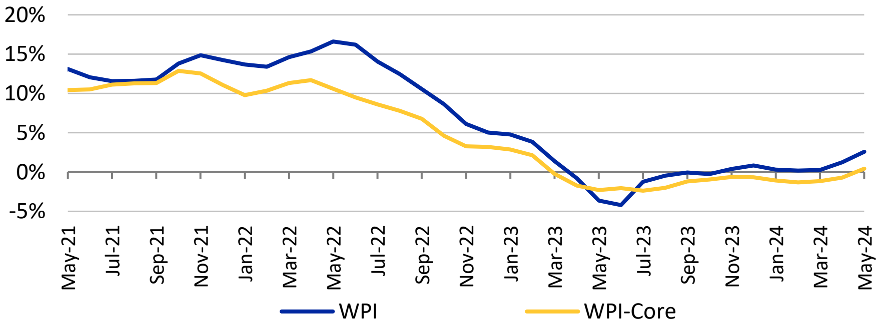
EXHIBIT: YoY trends in CPI, core-CPI and food and beverages inflation



**Since the detailed data for March-May 2020 is not available, we have not excluded prices for petrol and diesel of vehicles in the calculation of the core-CPI index for the YoY inflation rates in March-May 2021; Source: NSO; ICRA Research*

- The headline CPI inflation unexpectedly softened to 4.7% in May 2024 (ICRA's exp: +5.0%) from 4.8% in April 2024, owing to a lower-than-anticipated print for the food and beverages segment.
- **We expect the CPI inflation to print modestly below 5.0% in June 2024, aided by a softening in food and beverages inflation. Thereafter, it is likely to witness a sharp albeit temporary fall to 2.5-3.5% in July-August 2024, amid an adverse base.**
- **ICRA expects the CPI inflation to ease to 4.6% in FY2025 from 5.4% in FY2024. While the IMD's forecast of an above-normal monsoon rainfall and development of La Nina conditions in the second half of the monsoon season is a positive, any agro-climatic shocks could adversely impact the food inflation trajectory.**

EXHIBIT: YoY trends in WPI and core-WPI inflation

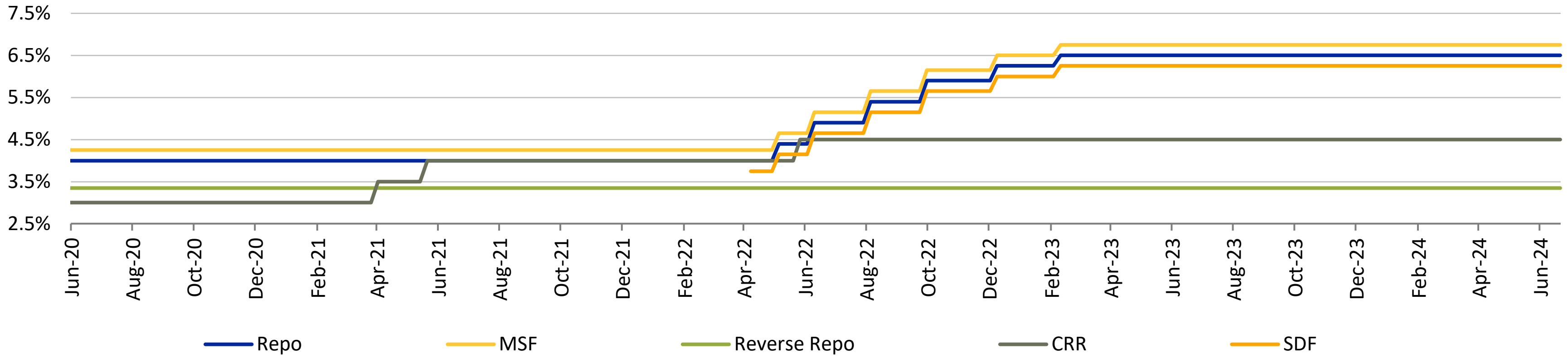


Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; ICRA Research

- Amid an adverse base, the YoY WPI inflation doubled to 2.6% in May 2024 from 1.3% in April 2024, with core-WPI items (manufactured non-food products) contributing as much as 57 bps to the overall uptick of 135 bps in the headline print between these months.
- **Thereafter, the softening in global commodity prices and domestic food prices is likely to contain the uptick in WPI inflation in June 2024, which will stem from a high base. We expect the WPI inflation to rise marginally to 3.0% in the month.**
- **Overall, ICRA projects the WPI inflation to average at 3.3% in FY2025, on the back of a deflationary base of FY2024 (-0.7%), assuming that global commodity prices do not display a large upswing.**

Rate cuts unlikely to begin before December 2024, amidst a shallow cycle limited to 50 bps at best

EXHIBIT: Movement in Key Rates



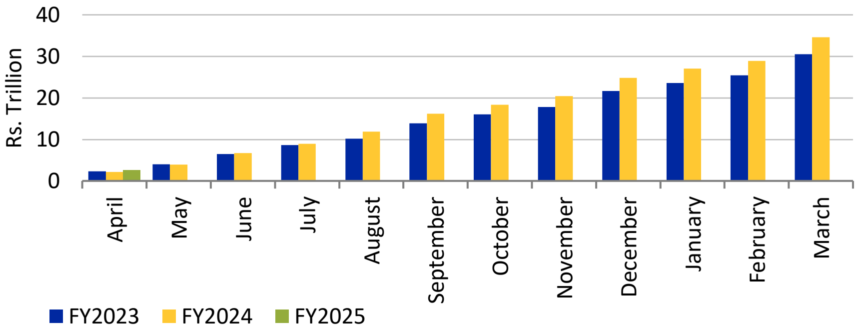
Source: RBI; ICRA Research

- The MPC kept the policy rates and stance unchanged in its second bi-monthly policy meeting for FY2025, in line with expectations. However, the voting pattern on both changed to 4:2 in the June 2024 policy from 5:1 in the previous meeting, with the two dissenting members voting for a 25 basis points (bps) rate cut and change in the policy stance to neutral.
- While the MPC kept its CPI inflation projection for FY2025 unchanged at 4.5%, that for GDP growth was raised to 7.2% from 7.0% indicated earlier in the April 2024 meeting.
- **ICRA believes that the MPC is unlikely to budge on the stance and rates until there is clarity on the turnout of the monsoon, its impact on kharif output and consequently the trajectory of food inflation. Consequently, ICRA foresees the earliest possible rate cut only in the December 2024 meeting, while expecting the total quantum of rate cuts to be limited to 50 bps at best in the awaited easing cycle.**

UNION GOVERNMENT FINANCES

Gross tax revenues up by ~17% YoY in April 2024; GoI's revex surged by ~44%, owing to sharp uptick in interest payments

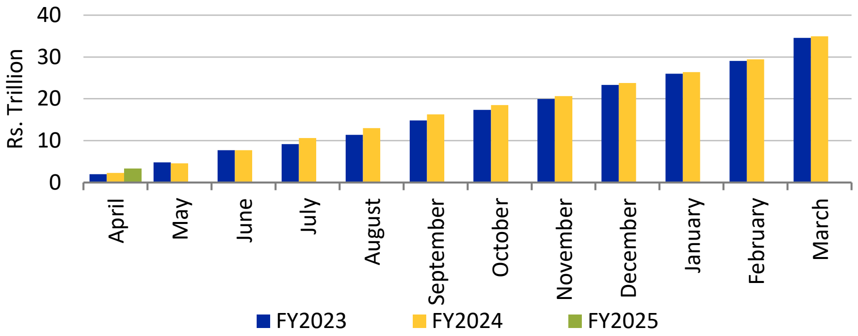
EXHIBIT: Trends in cumulative Gross Tax Revenues of GoI



Source: CGA; ICRA Research

- The GoI's gross tax revenues rose by a healthy 16.9% YoY to Rs. 2.6 trillion in April 2024 (6.7% of FY2025 BE) from Rs. 2.2 trillion in April 2023 (6.3% of FY2024 Prov.), led by a robust uptick in indirect taxes (+21.2%), followed by a relatively lower, albeit healthy rise in direct taxes (+12.1%).
- **Given that gross tax revenues in FY2024 turned out to be slightly higher than the RE (Prov.: 34.6 trillion vs. RE: Rs. 34.4 trillion), the embedded growth target for FY2025 is pegged at a shallower 10.6% vs. the budgeted 11.5% included in the Interim Budget estimates. Based on this, ICRA believes that there is scope to target higher tax revenues in FY2025 relative to that estimated in the Interim Budget.**

EXHIBIT: Trends in cumulative Revenue Expenditure of GoI



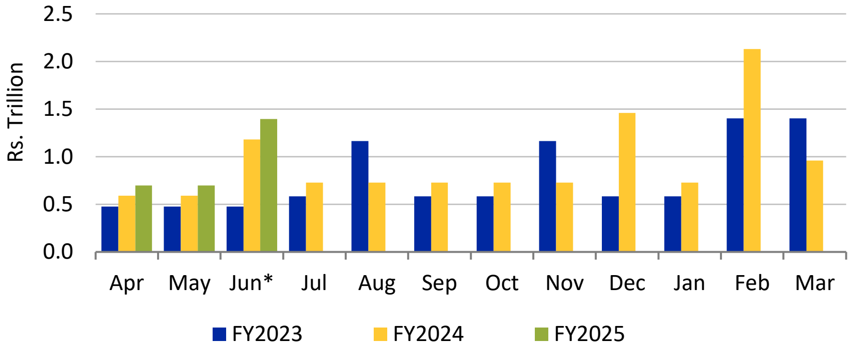
Source: CGA; ICRA Research

- The GoI's revex surged by 43.7% to Rs. 3.2 trillion in April 2024 (8.9% of FY2025 BE) from Rs. 2.6 trillion in April 2023 (6.5% of FY2024 Prov.), led by an unexpected surge in interest payments (YoY: +167.6%), even as the outgo towards major subsidies declined (-22.9%) in the month.
- **With the undershooting in the revex in FY2024 Prov., relative to the RE (Prov.: Rs. 34.9 trillion vs. RE: Rs. 35.4 trillion), the growth targeted in FY2025 is now pegged at a higher 4.6% vs. 3.2% indicated in the Interim Budget. ICRA expects that the GoI may revise its revex upwards mildly in the final Budget for FY2025 on account of introduction of a new scheme and/or increased allocations towards existing schemes.**

Tax devolution to states up by ~18% in FY2025 so far; GoI's net tax revenues to exceed Interim Budget Estimates by ~Rs. 200 billion in FY2025

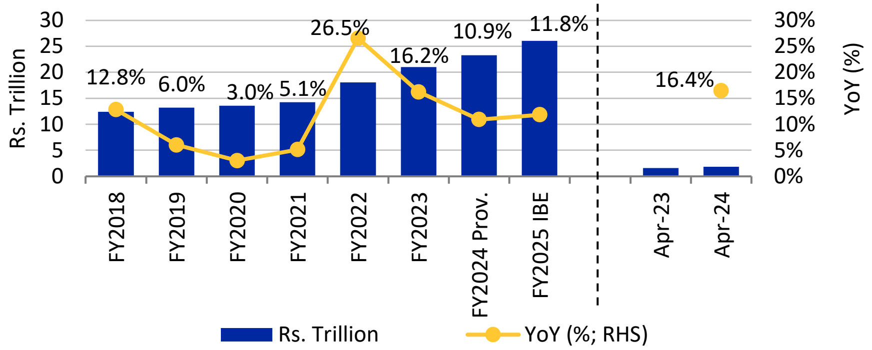
ICRA

EXHIBIT: Monthly trends in Central tax devolution (CTD)



**Data for June 2024 includes one additional CTD instalment of Rs. 699 billion, based on press release by Ministry of Finance; Source: CGA, Ministry of Finance, GoI; ICRA Research*

EXHIBIT: Trends in net tax revenues of GoI



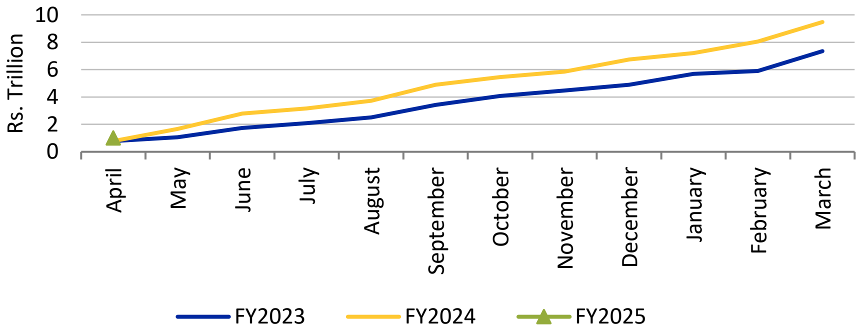
Prov.: Provisional Estimates; IBE: Interim Budget Estimates; Source: CGA, Ministry of Finance, GoI; ICRA Research

- The CTD amount released to the states stood at Rs. 11.3 trillion in FY2024 Prov. (+19.1% YoY), Rs. 250 billion higher than the FY2024 RE. Thereafter, CTD stood at Rs. 698.8 billion each in April and May 2024 (YoY in April-May 2024: +18.2%). Subsequently, the Ministry of Finance indicated via a press release that the GoI has released an additional CTD instalment to the states in June 2024, with the total devolution in that month amounting to Rs. 1.4 trillion. Consequently, the GoI has transferred Rs. 2.8 trillion to the states in FY2025 so far (vs. Rs. 2.4 trillion in April-June FY2024).
- With an uptick in gross tax revenues (+16.9%) and a sharp rise in CTD in April 2024, GoI's net tax revenues rose by a marginally lower 16.4% to Rs. 1.8 trillion in the month from Rs. 1.6 trillion in April 2023.
- For FY2025, the GoI had budgeted tax devolution at Rs. 12.2 trillion in the Interim Budget, implying an 8.0% growth over the FY2024 Prov. With the expectation of an upward revision in the gross tax revenues, the CTD to states is also likely to be raised in the final Budget for FY2025. Overall, **ICRA estimates net tax revenues to exceed the Interim Budget Estimate of Rs. 26.0 trillion by ~Rs. 200 billion.**

Additional leeway of ~Rs. 1.2 trillion on revenue front to facilitate higher spending and/or sharper fiscal consolidation in FY2025 vs. IBE target of 5.1% of GDP

ICRA

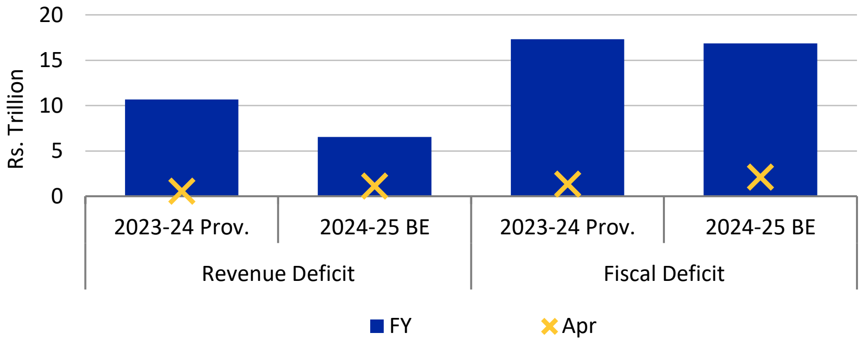
EXHIBIT: Trends in cumulative capital expenditure of the GoI



Source: CGA; ICRA Research

- While exceeding the 17.1% growth embedded for FY2025 BE (over FY2024 Prov.), the GoI's capex posted a robust 26.5% YoY expansion to Rs. 1.0 trillion in April 2024 (8.9% of FY2025 BE) from Rs. 0.8 trillion in April 2023 (8.3% of FY2024 Prov.), despite the implementation of the Model Code of Conduct.
- **While the larger-than-budgeted RBI dividend pay-out has increased the funds available for capex, ICRA believes that a capex target higher than Rs. 11.1 trillion indicated in the FY2025 IBE would be difficult to achieve, owing to the Model Code of Conduct and General Elections in Q1 FY2025, followed by the monsoon period. The required monthly run-rate for capex in H2 FY2025 would be quite sharp, making it challenging to even achieve the IBE target.**

EXHIBIT: Revenue deficit and fiscal deficit of the GoI



Source: CGA; ICRA Research

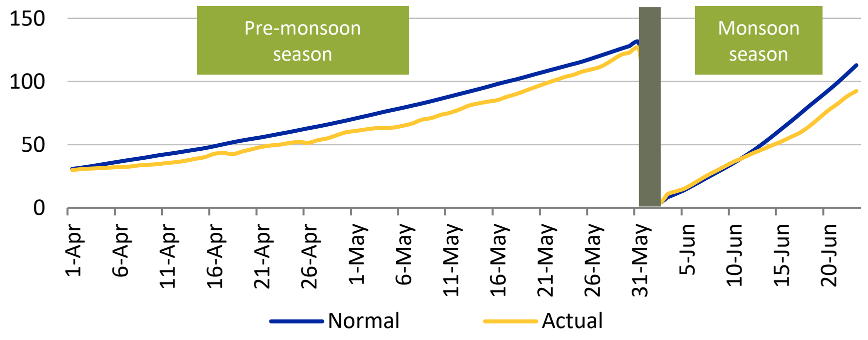
- With a 25.0% rise in revenue receipts, 43.7% surge in revex, and a 26.5% expansion in capex, the GoI's fiscal deficit spiked to Rs. 2.1 trillion in April 2024 (12.5% of FY2025 BE) from Rs. 1.3 trillion in April 2023 (8.1% of FY2024 Prov.).
- **Overall, the fiscal dynamics appear favourable for FY2025. The expectation of an upward revision in the tax revenues, along with a large dividend payout by the RBI in FY2025, provides an additional leeway of ~Rs. 1.2 trillion to the GoI for enhanced expenditure or a sharper fiscal consolidation than what was pencilled in the Interim Budget for FY2025 or both. Consequently, the fiscal deficit may print at 4.9-5.1% of GDP vs. the IBE of 5.1% of GDP.**

SECTORAL TRENDS

Tardy progress of Southwest Monsoon in June 2024 so far, amid significant lag in rainfall over northwest and central regions

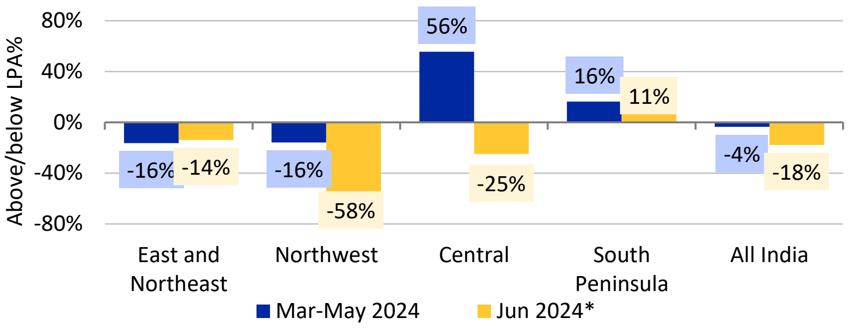
ICRA

EXHIBIT: Cumulative normal vs. actual rainfall (Mm)



Note: On a pan-India basis, rainfall between 96% and 104% of the LPA is considered to be normal. The other classifications are deficient (below 90% of LPA), below-normal (90-96% of LPA), above-normal (104-110% of LPA) and excess (more than 110% of LPA); Source: IMD; CEIC; ICRA Research

EXHIBIT: Region-wise and Pan-India monthly rainfall departure from normal



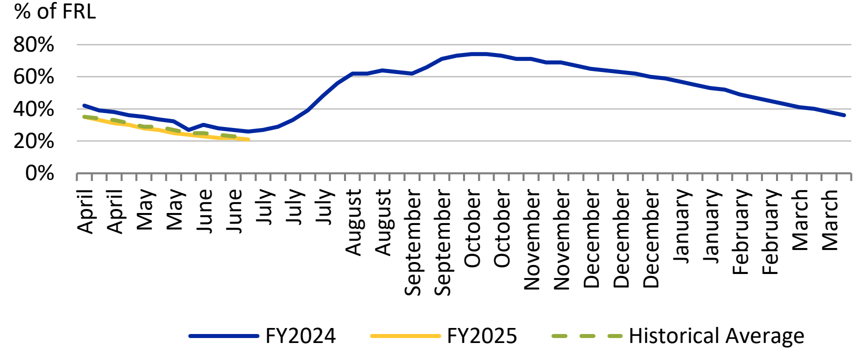
**Up to June 23, 2024; Source: IMD; CEIC; ICRA Research*

- The actual rainfall during the pre-monsoon period (March-May) trailed the normal levels throughout the season owing to El Nino conditions. Overall, the cumulative rainfall was normal at 96% of the LPA during March-May 2024.
- Thereafter, the IMD has indicated the Southwest Monsoon to be above normal at 106% +/-4% of the LPA during June-September 2024. Although the cumulative rainfall rose above the normal levels in the first week of the season, the progress thereafter has been tardy so far, with a significant lag of 18% over the normal levels up to June 23, 2024.
- In the pre-monsoon season (March-May 2024), the rainfall was deficient in East and Northeast and Northwest regions, while Central India and the South Peninsula received excess precipitation during this period.
- In the ongoing monsoon season, the spatial distribution of rainfall has been quite varied. The Northwest region has seen a large deficit of 58% vs. normal rainfall till June 23, 2024, amid heatwave conditions, followed by deficient rains in central (25% below LPA) and East and Northeast (14% below LPA) regions. In contrast, the South Peninsula has witnessed a surplus rainfall of 11% so far.

All-India reservoir storage trails year-ago levels; YoY deficit may be bridged with advancement of monsoons

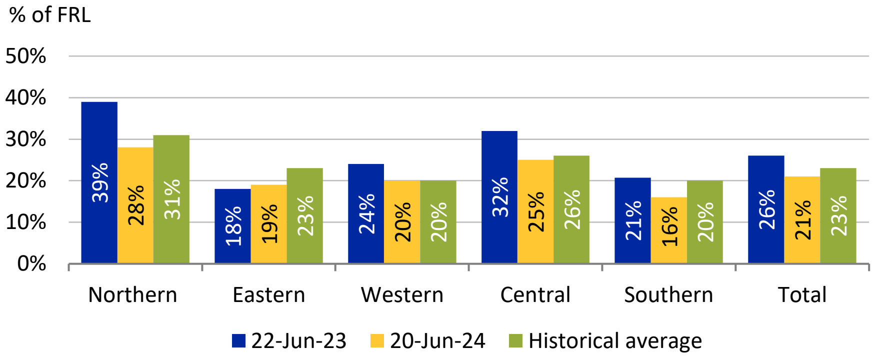
ICRA

EXHIBIT: Reservoir storage levels as percentage of Live Capacity at Full Reservoir Level (FRL)



Source: Central Water Commission (CWC); CEIC; ICRA Research

EXHIBIT: Region-wise reservoir storage levels



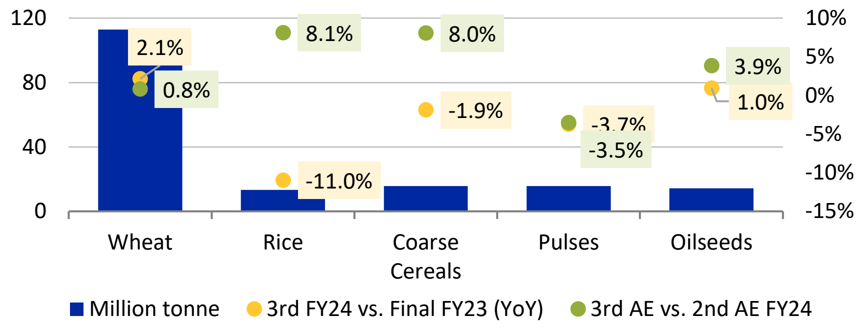
Source: CWC; CEIC; ICRA Research

- The all-India reservoir storage has trended below the year-ago levels in FY2025 so far, owing to sub-par rainfall during the pre-monsoon season as well as the slow progress of Monsoons in the ongoing month.
- It stood at 21% of the live capacity at FRL as on June 20, 2024, lower than the year-ago level (26% of FRL), while only mildly trailing the historical levels (23% of FRL over past 10 years). The YoY deficit may be bridged with the further advancement of monsoons and the likely development of La Nina conditions during the latter part of the monsoon season.

- Barring the eastern region (19% vs. 18%), the reservoir storage in all the other regions trailed the year-ago levels as on June 20, 2024.
- While the water storage in the western region as on June 20, 2024 is at par with the historical levels of the past decade, that in all other regions, including southern, eastern, northern and central regions trails the same by 4 pp, 4 pp, 3 pp and 1pp, respectively.

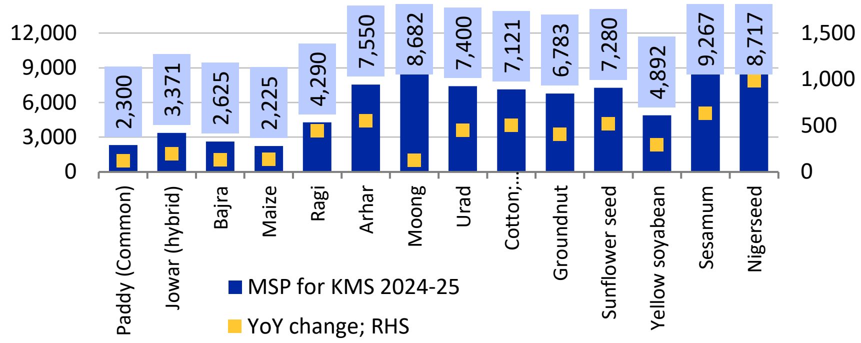
MSP hikes for kharif crops ranged widely from 2-13% for KMS 2024-25; progress of monsoon through next month crucial to accelerate kharif sowing

EXHIBIT: Production of rabi crops in 3rd AE for 2023-24



Source: Ministry of Agriculture and Farmers' Welfare; ICRA Research

EXHIBIT: MSPs for kharif crops in marketing season 2024-24 (Rs./quintal)

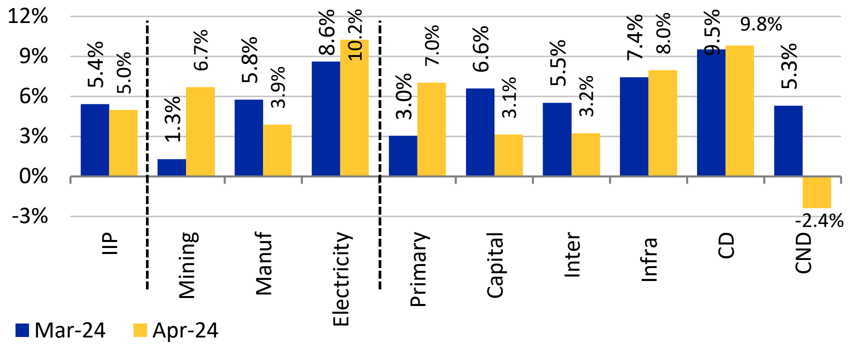


Source: CCEA; GoI ICRA Research

- As per the 3rd advance estimates for 2023-24 released by the Ministry of Agriculture, the output of most rabi crops displayed a mixed trend, with a YoY fall in rice (-11.0%), pulses (-3.7%) and coarse cereals (-1.9%), and an increase in wheat (+2.1% at record level) and oilseeds (+1.0%), compared to the final estimates for 2022-23. Notably, the output has been revised upwards in the 3rd AE over the 2nd AE for most rabi crops, except for pulses (-3.5%). This is likely to trigger an upward revision in the quarterly agri GVA growth estimates for H2 FY2024.
- For the kharif marketing season of 2024-25, the Cabinet has raised the Minimum Support Prices (MSPs) for kharif crops in the range of 1.4-12.7% over those for the KMS 2023-24, with the highest growth in nigerseed (+12.7% or by Rs. 983/quintal), followed by ragi (+11.5%; +Rs. 444/quintal) and arhar (tur; +7.9%; +Rs. 550/quintal). In absolute terms, the YoY increase in MSPs also ranged widely from Rs. 117/quintal (for paddy) to Rs. 983/quintal in the KMS 2024-25.
- The early kharif sowing entails a YoY dip of 6.3% in the total area sown by June 14, 2024, given the deficient rainfall witnessed in most parts of the country. **The progress of the monsoon through the next month would be crucial to accelerate sowing activity.**

IIP and core sector output growth displayed contrasting trend in April 2024 vs. March 2024; IIP expansion expected to inch up to 5.0-5.5% in May 2024

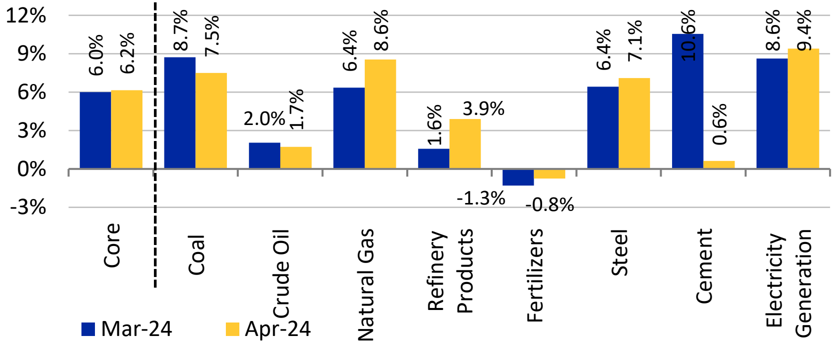
EXHIBIT: YoY Trend in performance of IIP and its sub-components



Infra. – infrastructure/construction goods, CD– Consumer Durables, CND – Consumer non-durables; Inter: Intermediate; Manuf: Manufacturing; Source: NSO; CEIC; ICRA Research

- While printing higher than ICRA's expectations (+4.0%), the YoY growth in IIP eased slightly to 5.0% in April 2024 from 5.4% in March 2024. This was entirely led by the manufacturing sector, even as there was an improvement in electricity generation (led by the surge in demand) and mining output.
- Among use-based categories, consumer durables, infra goods and primary products registered strong YoY growth in the output in April 2024, while consumer non-durables contracted, albeit on an adverse base.
- **Based on high frequency data, ICRA expects the YoY IIP growth to rise to 5.0-5.5% in May 2024, on a high base (+5.7% in May 2023 vs. +4.6% in April 2023).**

EXHIBIT: YoY Trend in performance of core sectors

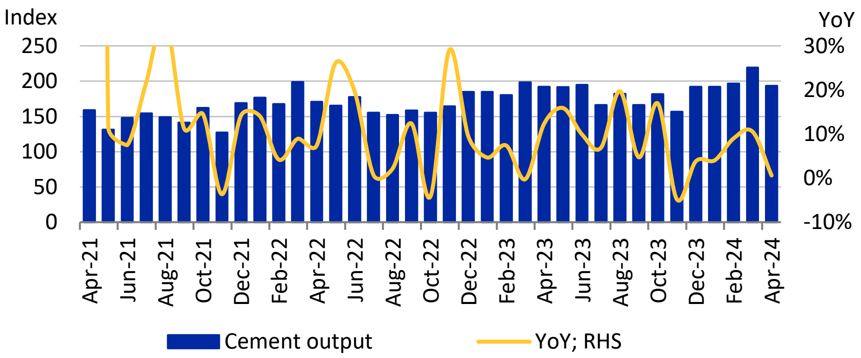


Source: Index of Eight Core Industries, Office of Economic Adviser, Ministry of Commerce and Industry, CEIC; ICRA Research

- Contrary to the trend displayed in the IIP, the YoY growth in core sector output improved slightly to 6.2% in April 2024 from 6.0% in March 2024.
- This was mainly on account of electricity generation, steel and refinery products, which saw an acceleration in growth in April 2024, compared to the prior month.
- The contrasting trend between steel and cement output in April 2024, relative to March 2024, can be partly attributed to higher demand for the former led by consumer durables, and a base-effect led dip in the latter.

Cement and steel volumes projected to rise by a healthy 7-8% and 9-10%, respectively, in FY2025

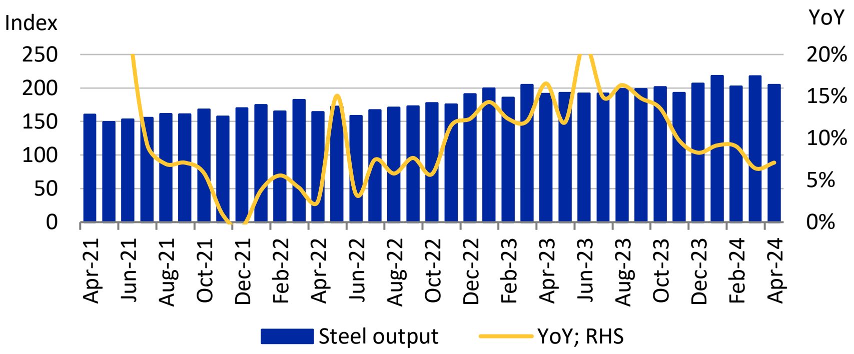
EXHIBIT: Trends in cement output



Source: Office of the Economic Adviser, GoI; ICRA Research

- Cement output rose by a healthy 9.0% YoY in FY2024, supported by demand from the urban housing and infrastructure segments. In April 2024, the YoY growth plunged to a five-month low of 0.6% (+12.4% in April 2023), from 10.6% in March 2024 (-0.2% in March 2023), partly reflecting the base effect.
- **While ICRA expects cement volumes to grow by a robust 7-8% to 455-460 MT in FY2025, volumetric growth may be temporarily impacted by the slowdown in construction activity in Q1 FY2025 amid the General Elections. With expected softening of cost-side pressures, the operating margins of this sector are likely to improve by 20-40 bps to 17.6%-18.0% in FY2025.**

EXHIBIT: Trends in steel output

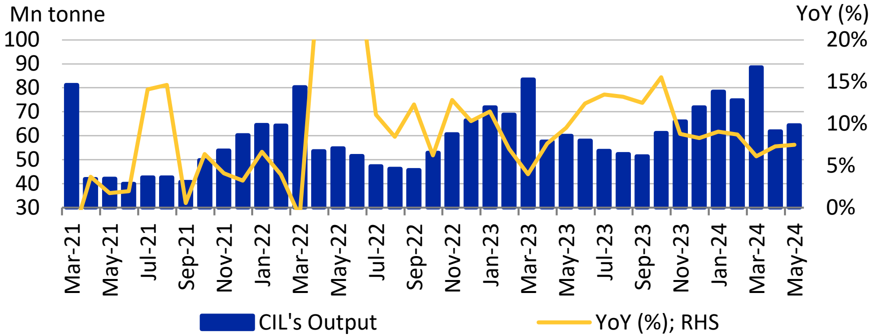


Source: Office of the Economic Adviser, GoI; ICRA Research

- Steel output increased by an impressive 12.4% YoY in FY2024, with demand stemming from the rise in GoI's capex and robust construction activity. Thereafter, output rose by 7.1% in April 2024 (vs. 6.4% in March 2024), which may be partly attributed to higher demand on account of some consumer durables like air conditioners, etc. amid rising temperatures in the country.
- **ICRA projects steel consumption to grow by 9-10% in FY2025, amid sustained demand from the housing and construction sectors. With the external environment remaining challenging, operating profit margin of the industry is expected ~17-18% in FY2025, marginally lower than that seen in FY2024.**

Electricity generation registered a double-digit expansion in May 2024, while CIL's output grew by a relatively lower 7.5%

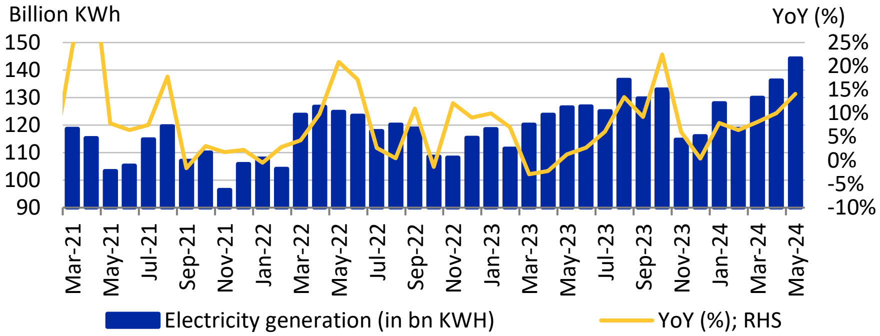
EXHIBIT: Trends in CIL's output



Source: CIL; ICRA Research

- Coal India Limited's (CIL) output registered a growth of 10.0% in FY2024, with volumes rising to 773.8 million tonne, albeit a shade below the envisaged level of 780 million tonne.
- The target for FY2025 has been pegged at 838 million tonne, which represents a growth of 8.3% over FY2024. The YoY growth in output, at 7.3% in April 2024 and 7.5% in May 2024, is running below the required growth rate for the ongoing fiscal. Nevertheless, output growth is likely to remain healthy to cater to the demand from the thermal power sector.

EXHIBIT: Trends in electricity generation



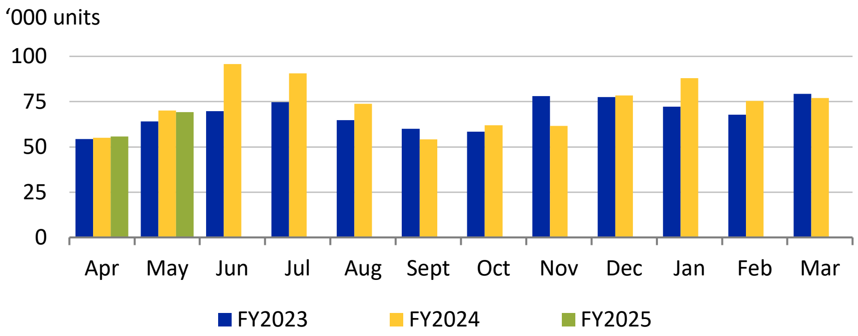
Electricity generation includes thermal, hydro, and nuclear energy; Source: CEA; ICRA Research

- Electricity generation (thermal, hydro, renewable and nuclear) increased by 7.2% in FY2024, after a 9.0% expansion in FY2023.
- In monthly terms, the YoY expansion in electricity generation (barring renewables) rose consistently from 6.5% in Feb 2024 to a seven-month high of 14.1% in May 2024, partly reflecting elevated demand (to +15.3% in May 2024 from +4.6% in Feb 2024, as per POSOCO) during the summer months as well as higher-than-normal temperatures amid heatwaves, and a favourable base.
- **ICRA expects electricity demand growth to moderate to 6.0% in FY2025, while remaining healthy.**

Motorcycle wholesale dispatches projected to grow by 7-10% in FY2025, while tractor volume growth is likely to be relatively modest at 1-4% YoY

ICRA

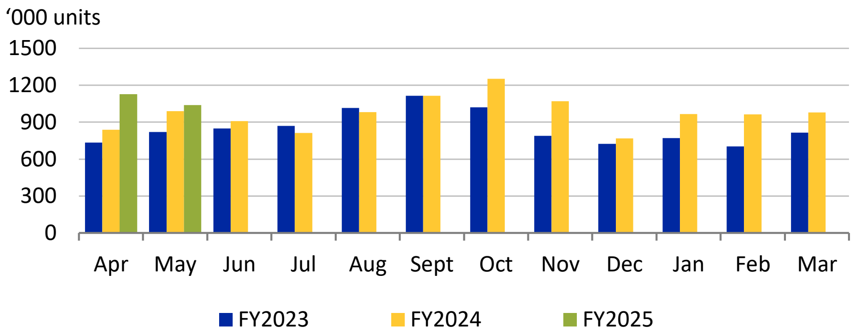
EXHIBIT: Trends in domestic tractor retail volumes



Source: CMIE; ICRA Research

- In wholesale terms, domestic tractor volumes witnessed a decline of 8.3% in FY2024 over record FY2023 levels, owing to the base effect, and weakened farm sentiments on account of the unfavourable monsoon, low haulage activities and estimated fall in agri crop output. Thereafter, wholesale volumes have dipped by 1.4% on a YoY basis during April-May 2024. **ICRA expects industry volumes to grow at a modest pace of 1-4% in FY2025.**
- In retail terms, the domestic tractor volumes increased by 7.4% in FY2024. Thereafter, volumes recorded a mild 1.2% growth in April 2024, before contracting by 1.2% in May 2024, in YoY terms.

EXHIBIT: Trends in domestic motorcycle wholesale volumes

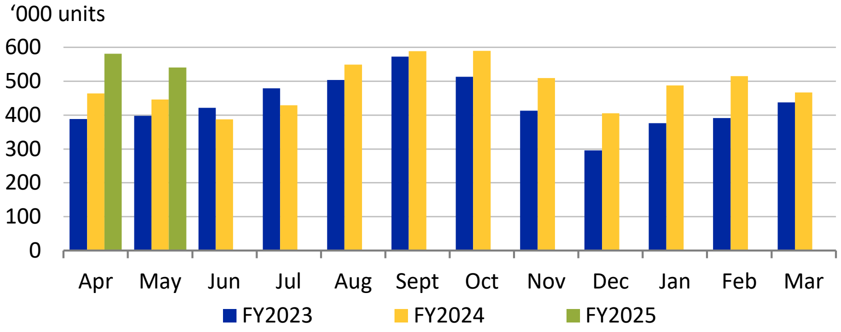


Source: CMIE; ICRA Research

- Wholesale domestic motorcycle volumes rose by 13.9% in FY2024 owing to inventory build-up and healthy demand during the festive and marriage seasons in the second half of the fiscal. Subsequently, the growth stood at 34.4% in April 2024 aided by steady demand and a latter onset of the festive season in 2024 vis-à-vis 2023, before moderating sharply to 5.0% in May 2024.
- **Despite improved volumes, concerns around a sustained demand recovery persist, amid the material rise in ownership costs. ICRA expects the domestic motorcycle volumes to grow by 7-10% YoY in FY2025 (+13.9% in FY2024).**

Scooter wholesale volumes to expand by ~7-10% in FY2025; growth in PV volumes to moderate to ~3-6% in the fiscal on an elevated base

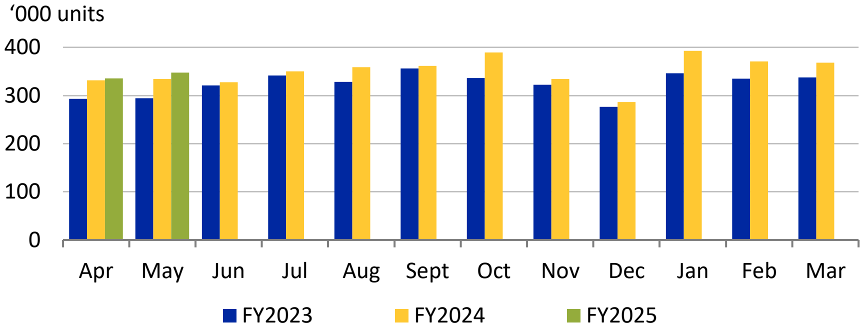
EXHIBIT: Trends in domestic scooter wholesale volumes



Source: CMIE; ICRA Research

- The domestic scooter wholesale volumes registered a healthy growth of 12.5% in FY2024, aided by steady urban demand. In the ongoing fiscal, the growth in such volumes eased to 21.1% in May 2024 from 25.2% in April 2024, while remaining quite strong.
- **ICRA is cautiously optimistic around a sustained recovery in demand amid multiple headwinds (high ownership costs, rise in financing rates and inflationary pressures). We expect domestic scooter volumes to grow by 7-10% in FY2025 (+12.5% in FY2024).**

EXHIBIT: Trends in domestic PV wholesale volumes

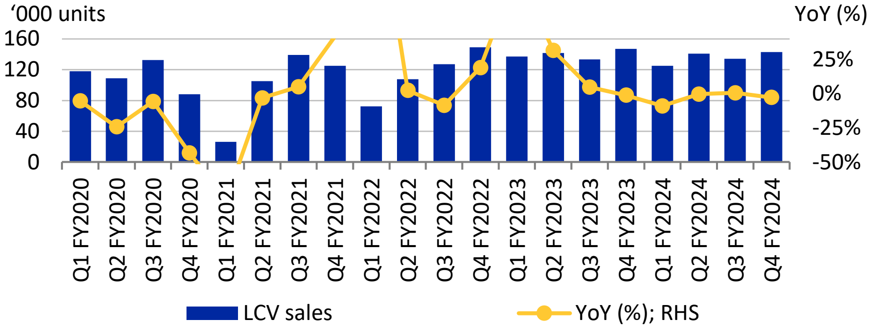


**Including Tata Motors Limited (TML) volumes; Source: CMIE; ICRA Research*

- Domestic PV wholesale volumes scaled to an all-time high of 4.2 million in FY2024, displaying a YoY growth of 8.2%, amid steady underlying demand, with preference for personal mobility, improvement in semiconductor supplies and a surge in the demand for special utility vehicle (SUVs) in the post-Covid era.
- Thereafter, such volumes rose by 2.6% YoY in Apr-May 2024. **ICRA expects the PV industry to grow by 3-6% in FY2025 aided by steady demand. The lower growth expectation for the current fiscal partly stems from the waning of pent-up replacement demand and a high base.**

Domestic CV industry to see 4-7% decline in volumes in FY2025

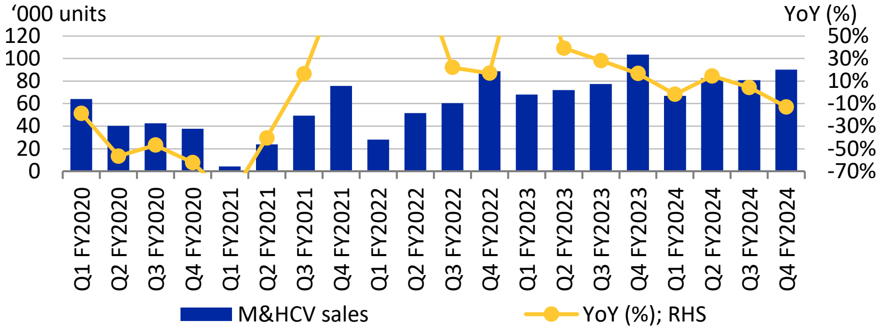
EXHIBIT: Trends in domestic LCV wholesale volumes (truck)



Source: CMIE; ICRA Research

- The light commercial vehicle (LCVs: truck segment) segment witnessed a marginal YoY decline of 2.8% in wholesale dispatches in Q4 FY2024 primarily owing to the high base effect. Overall, such volumes eased by 2.9% to 0.54 million units in FY2024 from 0.56 million units in FY2023.
- **ICRA expects the domestic LCV wholesale volumes to decline by 5-8% in FY2025, stemming from factors such as a high base, sustained slowdown in e-commerce and cannibalisation from electrical three-wheelers. Prospects of rural economy, which depend on monsoons, remain critical for this segment.**

EXHIBIT: Trends in domestic M&HCV wholesale volumes (truck)

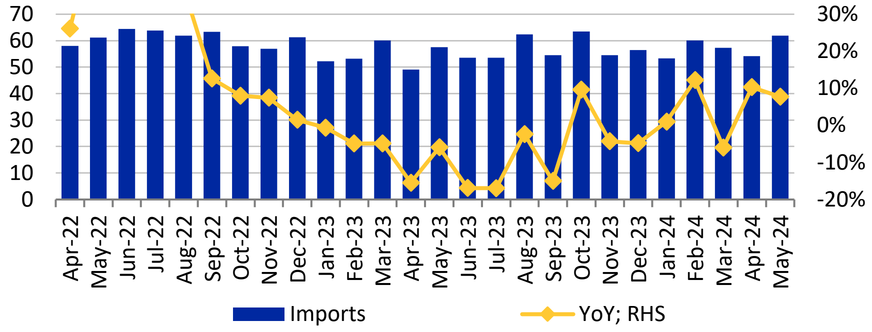


Source: CMIE; ICRA Research

- The medium and heavy commercial vehicles (M&HCV) truck segment ended FY2024 with a 4.0% YoY growth (after a 12.9% decline in Q4 FY2024), supported by an improved macro environment, healthy demand from the construction and mining sectors and consequent higher freight availability in the early months of the fiscal, which was offset by muted demand seen in latter months.
- **ICRA expects the domestic M&HCV volumes to decline by 4-7% in FY2025, owing to an elevated base and the impact of the General Elections on infrastructure activity in the early part of the fiscal.**

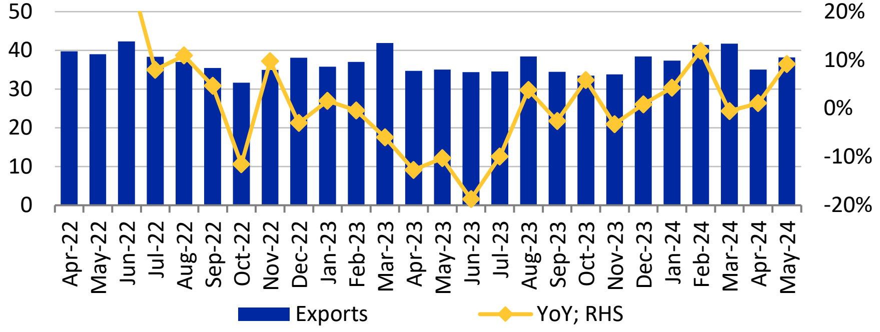
Merchandise imports projected to rise at a slightly faster pace than such exports in FY2025

EXHIBIT: Trends in merchandise imports ($ billion)



Source: Ministry of Commerce and Industry, GoI; ICRA Research

EXHIBIT: Trends in merchandise exports ($ billion)



Source: Ministry of Commerce and Industry, GoI; ICRA Research

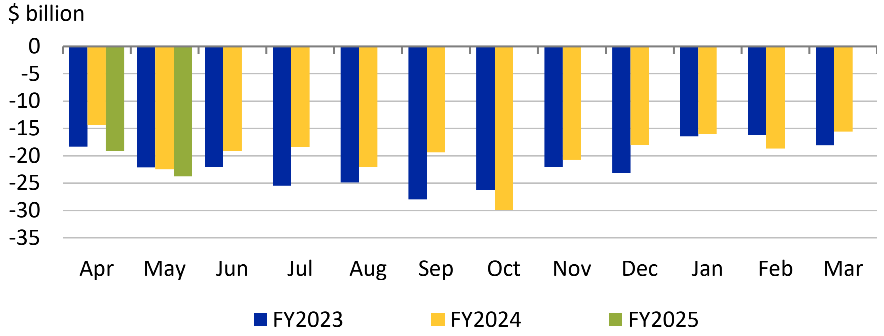
- India's merchandise imports declined by 5.7% YoY to $675.4 billion in FY2024, owing to the deflation in global commodity prices, as well as a sharp fall in the oil import bill (-14.2%) partly aided by gains from discounted Russian crude.
- In April-May 2024, merchandise imports increased by 8.9% YoY to $116 billion, entirely driven by gold (+37.1%) and crude petroleum and product (+24.4%) imports, partly on account of higher prices. The growth in non-oil non-gold segment was muted at 0.8% in April-May 2024. **ICRA projects merchandise imports to grow by ~7-8% in FY2025, owing to higher commodity prices as well as robust domestic demand.**

- Similar to imports, merchandise exports also declined, albeit by a narrower 3.1% YoY to $437.1 billion in FY2024, led by petroleum products (-13.7%).
- In the ongoing fiscal, export growth was tepid at 1.1% YoY in April 2024, which improved to 9.1% in May 2024, driven by items like engineering goods, RMG of all textiles, and petroleum products.
- **ICRA expects merchandise exports to rise by ~4-5% in FY2025, supported by a likely pick up in global demand after the rate cut cycle begins in some major economies. However, the impact of the Red sea crisis on shipping timelines and freight cost remains a key monitorable in the near term.**

Merchandise trade deficit to widen in FY2025; ports cargo traffic expected to grow by 6-8% during the year

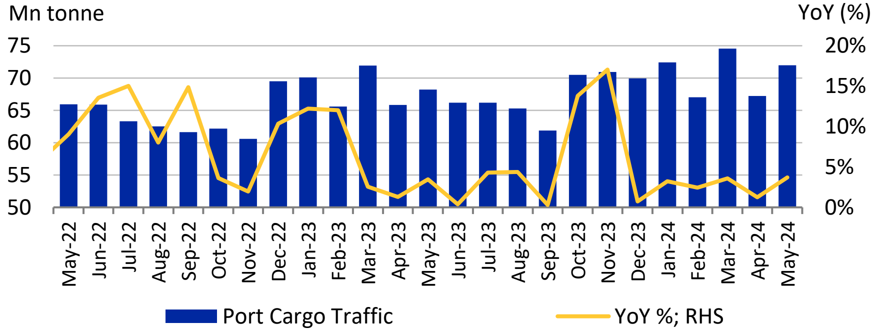
ICRA

EXHIBIT: Trends in merchandise trade deficit ($ billion)



Source: Ministry of Commerce and Industry, GoI; ICRA Research

EXHIBIT: Trends in cargo traffic at major ports



Source: Indian Ports Association (IPA); ICRA Research

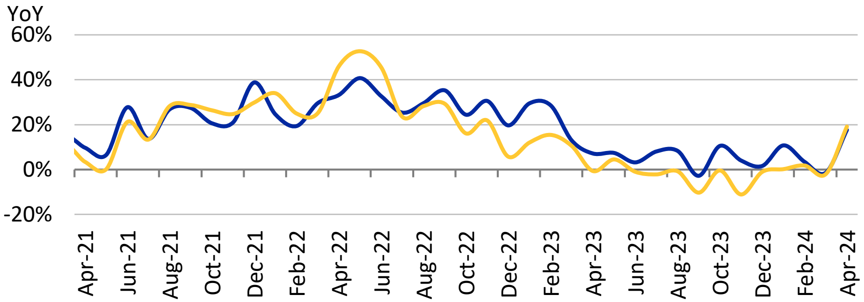
- Benefitting from a sharper decline in imports vis-à-vis exports, India's merchandise trade deficit had narrowed to $238.3 billion in FY2024 from $264.9 billion in FY2023, with more than 60% of the reduction stemming on account of the oil deficit.
- In FY2025 so far, the trade deficit widened to a seven-month high of $23.8 billion in May 2024 from $19.1 billion in April 2024, driven by the net oil balance, with a sharp rise in volumes amid some cooling in crude oil prices.
- **ICRA projects the merchandise trade deficit to widen to $272-275 billion in FY2025 from $242.1 billion in FY2024, led by net oil imports, which are projected to rise slightly amid higher prices and diminishing gains from discounted crude purchases from Russia.**

- The growth in cargo traffic at major ports was modest at 4.7% in FY2024, driven higher shipments of iron ore (+32.7%), coking and other coal (+10.0%) and containers (+6.7%). However, cargo at minor ports grew by a robust 10.1% in FY2024, driven by iron ore, container and coal shipments.
- The cargo traffic at major ports grew by 1.3% YoY in April 2024, followed by a stronger 3.7% expansion in May 2024, led by iron ore, thermal coal and POL.
- **ICRA estimates port cargo traffic (major + minor ports) to rise by 6-8% in FY2025, on account of a robust growth in the container and coal segments. Nevertheless, sluggish global growth as well as impact of renewed geopolitical tensions on freight costs and elongated transit times pose risks.**

Services trade surplus expected to rise to $176-178 billion in FY2025 from $163 billion in FY2024

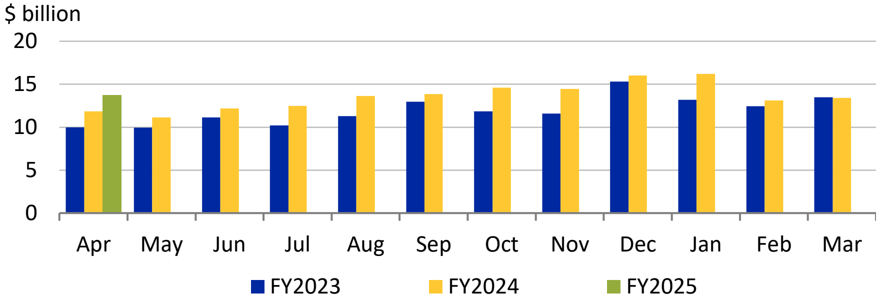
ICRA

EXHIBIT: Trends in Services exports and imports



Source: RBI; ICRA Research

EXHIBIT: Trends in Services Trade balance

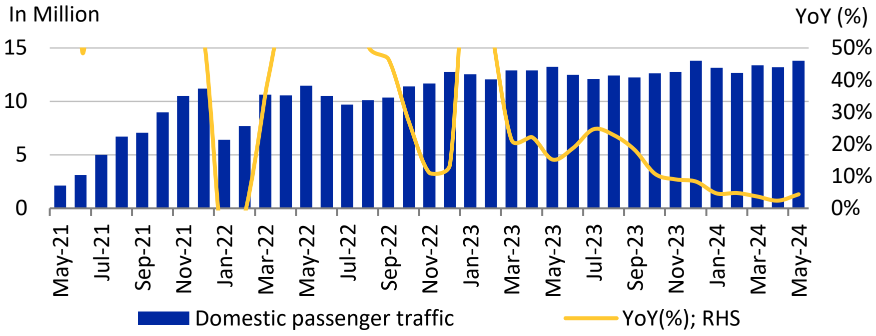


Source: RBI; ICRA Research

- India's services exports reported a YoY growth of 4.9% to $341.1 billion in FY2024. As per the available data for 9M FY2024, other business services (+13.5%, amid rising share of GCCs) and travel (+27.6%) witnessed a robust growth during this period, followed by telecom, computer, and information services (+9.3%). In contrast, services imports contracted by 2.0% YoY to $178.3 billion in FY2024. Consequently, the services trade surplus surged to a record-high of $162.8 billion in FY2024 from $143.3 billion in FY2023.
- In April 2024, services exports increased by 17.7% YoY to $30.3 billion (vs. monthly average of $28.4 billion in FY2024), albeit shallower than the 19.1% expansion in such imports in the month. The services trade surplus rose by ~16% YoY to $13.7 billion in April 2024 (similar to FY2024 monthly average of $13.6 billion).
- **ICRA anticipates exports of IT services to remain tepid in FY2025 amid expectations of a muted 3-5% growth in revenues in ICRA's sample set of companies, similar to that seen in FY2024, owing to the uncertainty in key markets which is expected to result in a slowdown of discretionary IT spends by key sectors such as retail, BFSI, technology and communication. However, the export performance of non-IT services like global capability centres (GCCs) and the travel segment may continue to remain healthy in FY2025, as was the case in the previous fiscal. ICRA estimates the services trade surplus to rise to $176-178 billion in FY2025.**

Growth in domestic air passenger traffic and rail freight traffic volumes improved in May 2024 vis-à-vis April 2024

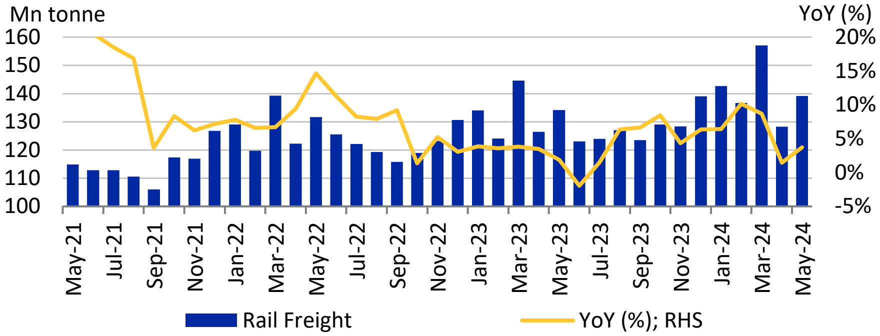
EXHIBIT: Trends in domestic airlines' passenger traffic



Source: Directorate General of Civil Aviation (DGCA); ICRA Research

- The YoY growth in domestic airlines' passenger traffic improved slightly to 4.4% in May 2024 from 2.4% in April 2024. The growth has been sub-5% since January 2024, mainly on account of an unfavourable base.
- Further, May 2024 recorded 13.8 million passengers, marginally lower than the record levels of December 2023, boosted by a healthy demand for leisure and business travel.
- **ICRA estimates the domestic air passenger traffic to increase by 8-13% to 165-170 million in FY2025.**

EXHIBIT: Trends in rail freight traffic

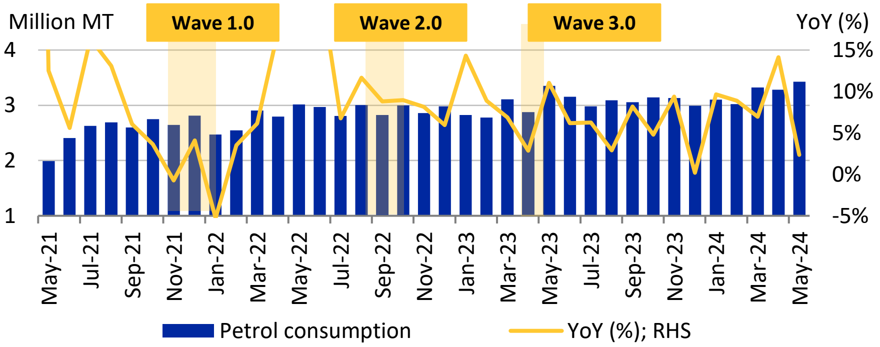


Source: Indian Railways, GoI; ICRA Research

- The YoY growth in rail freight volumes improved to 3.7% in May 2024 from 1.4% in April 2024, largely driven by coal (buoyed by healthy demand from the power sector). On a MoM basis, rail freight traffic rose by a significant 8.5% in May 2024 (vs. +6.1% May 2023).
- After posting a record-high annual freight of 1,591 MT in FY2024 (averaging at 132.6 MT/month), such volumes averaged at 133.7 MT per month during April-May FY2025.

Petrol and diesel consumption saw low single-digit growth in May 2024

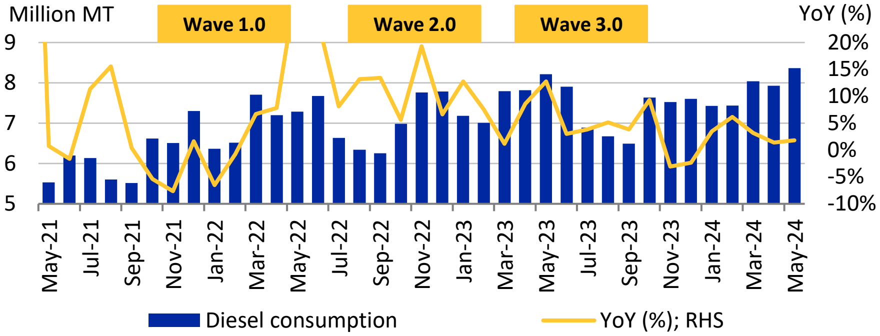
EXHIBIT: Trends in petrol consumption



Source: PPAC; ICRA Research

- The YoY growth in petrol consumption dipped sharply to 2.4% in May 2024 (from +14.1% April 2024 and +11.0% May 2023), largely on account of an unfavourable base.
- Notwithstanding the moderation in YoY growth, petrol consumption surged to a record high of 3.4 MT in May 2024.

EXHIBIT: Trends in diesel consumption



Source: PPAC, ICRA Research

- The YoY growth in diesel consumption saw a slight uptick to 1.8% in May 2024 from 1.4% April 2024, while remaining in low single digits.
- Supported by the petrol and diesel price cuts by the OMCs in March 2024, average diesel consumption has risen to 8.1 MT/month during March-May 2024 from 7.4 MT/month during April-February FY2024.
- Overall, diesel consumption has risen by 1.6% YoY in April-May 2024, lower than the 7.8% rise seen in petrol consumption during this period.

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Thank You!