

Investment Tracker

Investment activity stays robust in Q2 FY2024; demand to be cautious in H2 amid run-up to the General Elections, geopolitical tensions

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The YoY performance of seven of the 11 investment-related indicators improved in Q2 FY2024, relative to Q1.

However, new project announcements dipped to Rs. 1.3 trillion in Q2 FY2024, lowest since Q1 FY2005 (barring Covid-affected quarters).

New investment announcements are likely to be tempered in H2 amid growing geopolitical risks, uncertainty prior to the General Elections.

India's investment activity was robust in Q2 FY2024 as reflected in the improvement in year-on-year (YoY) growth performance of majority of investment-related indicators relative to Q1 FY2024, partly benefitting from deficient rainfall in Aug 2023. Although the YoY expansion in capex by the Centre and 22 States moderated in Q2 FY2024, relative to Q1, it remained in double digits. However, project announcements and completions slid to 13- and nine-quarter lows, respectively, led by the private sector. Going forward, investment demand is likely to be cautious in H2 FY2024 amid increased geopolitical tensions in the Middle East, and a potential slowdown in momentum of Government capex and project execution prior to the General Elections. In ICRA's view, greater clarity would emerge thereafter, although continued fiscal consolidation and a high base suggest that the YoY growth in the Government of India's (GoI's) capex in FY2025 relative to that budgeted for FY2024, would be modest. Additionally, ICRA expects the private sector capex cycle to be measured rather than excessively exuberant over the next few years.

- **Performance of most investment-related indicators improved in Q2 FY2024 vis-à-vis Q1 FY2024:** The YoY growth of seven of the 11 indicators improved in Q2 FY2024, although the extent of improvement was limited, for indicators such as exports and imports of engineering goods, output of capital goods, consumption of finished steel, etc. While the YoY growth in the other four indicators weakened in Q2 FY2024 relative to Q1 FY2024, all of them continued to exhibit a double-digit expansion in that quarter. Moreover, capex-related ECB flows surged in H1 FY2024, exceeding the full-year FY2023 levels, thereby auguring well for investment demand in the near term.
- **New project announcements at 13-quarter low in Q2 FY2024:** The value of new project announcements dipped to a 13-quarter low of Rs. 1.3 trillion in Q2 FY2024 from Rs. 6.1 trillion in Q1 FY2024 (which was led by Indigo's aircraft order of Rs. 4.1 trillion). Notably, barring the Covid-affected quarters, this was the lowest value since Q1 FY2005 (Rs. 0.4 trillion). Moreover, announcements by both the Government and private sectors were muted in Q2 FY2024. Going ahead, new investment announcements across sectors may be restrained in H2 FY2024 amid the uncertainty on account of geopolitical tensions in the Middle East as well as in the run-up to the 2024 Parliamentary Elections.

Capex cycle by private sector likely to be measured and not excessively exuberant over the next few years.

The Gol capex rose by ~43% on a YoY basis in H1 FY2024; momentum of capex is likely to slow down ahead of the General Elections in 2024.

Home sales in top seven cities stood at second-best 169.9 msf in Q2 FY2024; expect 9-11% growth in FY2024.

- **Capex cycle unlikely to be excessively exuberant over the next few years:** The sustenance of domestic demand amid global headwinds would impact the capacity utilisation over the next couple of quarters and influence the pace of incremental capacity addition announcements through the remaining part of FY2024 and 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.
- **Gol front-loaded capex in H1 FY2024; momentum likely to ease in H2 FY2024:** The Gol's capex (+43.1% YoY) and capital outlay and net lending of 22 states (+47.5%) rose sharply in H1 FY2024, with the latter reaping the benefits of upfronting of tax devolution (Rs. 4.6 trillion) and release of interest-free capex loan (Rs. 535.4 billion vs. nil in H1 FY2023) by the Gol. However, the momentum of the Gol's capex and execution of projects may slow down towards the end of the fiscal, ahead of the 2024 General Elections. Elections in some states in Q3 FY2024 could result in a similar break in momentum. Besides, the growth in the Gol's capex target is likely to be relatively moderate in FY2025 compared to the budgeted level for FY2024 (+37%), amid continued focus on fiscal consolidation.
- **Central infra sector projects completion may slow ahead of General Elections:** Based on the data released by MOSPI in Sep 2023, as many as 628 projects with an anticipated completion cost of Rs. 7.7 trillion are scheduled to be completed in H2 FY2024. This number is very large and only a fraction of this is likely to be completed, given that project execution could potentially slow down towards the end of the fiscal in the run-up to the General Elections, leading to spillovers to FY2025. Notably, of these aforesaid projects, 60-100% of the anticipated cost of completion has already been spent on projects worth Rs. 4.3 trillion by Sep'23; even if half of these projects are commissioned in H2 FY2024, the total cost of completion in FY2024 is estimated at Rs. 3.5 trillion, a YoY growth of ~15%.
- **Housing sales remained healthy in Q2 FY2024:** The country recorded its second-best home sales volume in the top seven cities at 169.9 mn sft in Q2 FY2024, a sequential rise of 4.7%, backed by steady end-user demand and healthy albeit moderating affordability, amid rising interest rates and property prices. ICRA expects volume growth of 9-11% in FY2024.



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