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Investment Tracker

Investment activity picked up sequentially in Q2 FY2025 while remaining lacklustre; Government capex to support near-term demand

OCTOBER 2024

Agenda

1 Trends in High Frequency Indicators for Investments

2 Trends in Order Books and Capacity Utilisation

3 Trends in Government, Corporate and Household Investments

4 Annexure

Highlights - I

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The YoY performance of five of the 11 investment-related indicators moderated in Q2 FY2025 vis-à-vis Q1, while the remaining six improved.

Home sales volumes in top seven cities tanked by ~15 YoY in Q2 FY2025, while new launches also contracted by double digits in the quarter.

Although investment activity improved in Q2 FY2025 after the election-led lull in Q1 FY2025, it remained lacklustre in the quarter. Steel and cement, which are crucial inputs for construction, witnessed divergent trends in Q2 vis-à-vis Q1, with the year-on-year (YoY) growth in the consumption of the former slowing, while remaining in double digits, and that in the output of the latter inching up, albeit remaining weak in low-single digits. While new project announcements witnessed a healthy rebound from the multi-year lows in Q1, project completions remained muted, partly affected by the excess rains in August and September 2024. Additionally, housing activity weakened in Q2, with home sales and new project launches contracting by double digits in the quarter. Encouragingly, Government capex picked up pace in the first two months of Q2 FY2025 after contracting sharply in Q1, which is likely to augur well for project completions in the near term. ICRA maintains that private capex remains contingent on demand conditions, which would influence the pace of capacity additions over the next few quarters. Given this, and weakening housing activity, the Government capex remains crucial to support investment demand and growth. The exceptionally high required YoY growth in the Government capex during September-March FY2025 augurs well, notwithstanding expectations of a modest miss in the FY2025 capex targets.

- **Performance of investment-related indicators was mixed in Q2 FY2025:** The YoY performance of six of the 11 investment-related indicators improved in Q2 FY2025, including output of cement (while remaining muted) and capital goods, capex of 22 states and Centre, states' stamp duty collections, and engineering goods' exports. In contrast, the YoY growth of the other five indicators slowed in Q2 FY2025 vs. Q1, partly owing to the disruption caused by excess rainfall, including infrastructure/construction goods' output, M&HCV registrations, infrastructure credit, engineering goods' imports, and finished steel consumption.
- **Housing activity slowed significantly in Q2 FY2025:** After reporting a low single-digit growth in Q1 FY2025, the area sold in the top seven cities contracted sharply by 14.7% YoY in Q2 FY2025, to an eight-quarter low of 144.4 msf. Additionally, new launches in top seven cities also fell to a 12-quarter low in Q2 FY2025. With the onset of festive season, launches are expected to pick up in Q3 FY2025. Additionally, the decadal low inventory and YTS levels would also push developers to augment their launch pipeline.

Highlights - II

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Project announcements tripled after elections to Rs. 6.7 trillion in Q2 FY2025 from Rs. 2.2 trillion in Q1; however, completions remained lackluster, rising marginally to Rs. 1.0 trillion from Rs. 0.7 trillion, partly affected by monsoons.

Central infra projects completion declined on YoY basis in H1 FY2025; likely to pick-up in H2 amid sizeable pipeline, but execution remains key.

GoI's capex and 22 states' capital outlay and NL fell by 19.5% YoY and 4.3% in April-August FY2025, respectively.

Implied growth required for GoI's capex is ambitious at ~41% YoY in September-March FY2025 to meet capex target, given weak progress so far in interest free capex loan, lull seen during Q1.

- **Project announcements improved in Q2 FY2025 while completions remain subdued:** As anticipated, new project announcements witnessed a healthy rebound to Rs. 6.7 trillion in Q2 FY2025 from multi-quarter low of Rs. 2.2 trillion in Q1 FY2025, registering a QoQ expansion of 207%. This was in sync with the historical trends, wherein new proposals picked up sharply in Q2 after the lull seen during the period of Parliamentary elections. The QoQ increase in cost of announcements in Q2 FY2025 was much stronger by the private sector (to Rs. 5.2 trillion from Rs. 1.1 trillion) than that by the Government (to Rs. 1.5 trillion from Rs. 1.1 trillion). However, project completions remained subdued in Q2, improving marginally to Rs. 1.0 trillion from Rs. 0.7 trillion in Q1 FY2025, partly affected by monsoons. This is only half of the average completion cost of Rs. 1.8 trillion seen over the last 10 quarters.
- **Central sector infra projects completions eased in H1 FY2025, may improve in H2 amid sizeable pipeline:** The cost of commissioning of such projects moderated to Rs. 0.9 trillion in H1 FY2025 from Rs. 1.4 trillion in H1 FY2024, even as number of projects completed rose slightly to 156 from 154, respectively. Based on this and anticipated completion schedule available for H2 FY2025, a massive Rs. 10.6 trillion worth of projects are intended for commissioning in FY2025. This appears quite ambitious, given the subdued pace seen in H1, and past year trends (actual turnout=35% of the actual target). Nevertheless, the execution of infra projects typically picks up momentum post monsoons, and hence, would remain a key monitorable, going forward.
- **Government capex declined in April-August FY2025; FY2025 targets likely to be missed, despite anticipated H2 rebound:** The GoI's capex (Rs. 3.0 trillion; YoY: -19.5%) trailed the year ago levels significantly during April-August FY2025. Consequently, to meet the FY2025 BE (Rs. 11.1 trillion), the GoI needs to incur capex amounting to Rs. 8.1 trillion during September-March FY2025, implying a growth of ~41% relative to the corresponding period of FY2024 (Rs. 5.7 trillion), which appears quite challenging. With an average run rate of Rs. 1.2 trillion per month during September-March FY2025 (vs. Rs. 0.8 trillion/month in September-March FY2024), ICRA expects the FY2025 capex target to be missed by at least Rs. 0.5 trillion. Additionally, with the capital outlay and net lending of 22 states* (Rs. 1.7 trillion; -4.3%) remaining tepid during April-August FY2025, owing to the General Elections and heavy rainfall in some states, and a lull expected for a few weeks in Q3 FY2025 in the election-bound states of Haryana and Maharashtra, we expect the capital spending by the states to undershoot the capex target set for FY2025.

**22 states excluding Arunachal Pradesh, Jharkhand, Goa, Gujarat, Manipur, and Odisha.*

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Thank You!