ICRA

Investment Tracker

Investment activity improved in Q3 FY2025; Government capex key to support GDP growth in FY2026 amid subdued outlook for private capex

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Agenda

1 Trends in High Frequency Indicators for Investments

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3 Trends in Government, Corporate and Household Investments

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Highlights - I

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Six of the 11 investment-related indicators improved in Q3 FY2025 over Q2, largely pertaining to the construction sector and capex by the Government.

Home sales volumes in the top seven cities rose by ~15% QoQ in Q3 FY2025, while trailing the year-ago level. Overall, volumes are likely to ease by 2-4% in FY2025, before rebounding in FY2026.

Following the slowdown in H1 FY2025, India's investment activity recovered to some extent in Q3 FY2025, as reflected in the year-on-year (YoY) improvement in several investment-related indicators vis-à-vis Q2, amid a healthy pick up in capital spending by the Government of India (GoI) and state governments. While the momentum in new project announcements sustained at over Rs. 8 trillion for two quarters in a row, project completions remained subdued vis-à-vis the historical levels. Looking ahead, the GoI's capex target is set at Rs. 11.2 trillion, a 10% hike over the revised estimate of Rs. 10.2 trillion for FY2025, amid enhanced allocations for undisclosed "new" schemes and the 50Y interest-free capex loans to the state governments. Including grants in-aid for creation of capital assets, the GoI's effective capex growth is placed at ~17% in FY2026, which will boost investment activity and GDP growth in the next fiscal, although an early articulation of new schemes and clarity on conditionalities for the tied portion of the state capex loans would enable an early kick-off of the GoI's capex and offtake by the states, respectively. The GoI has attempted to push capex through the states, and the extent of the same would become clear over the next few months, after their budgets are presented. While the large income-tax relief augurs well for consumption, private capex is expected to remain measured amid global headwinds and the subdued outlook for merchandise exports.

- **Uneven recovery in investment-related indicators in Q3 FY2025:** The YoY performance of six of the 11 investment related-indicators saw an improvement in Q3 FY2025, compared to Q2 FY2025, including the output of capital and infrastructure goods, cement production, engineering goods' exports, as well as capital spending of the Centre and state governments. However, performance of the remaining five indicators deteriorated, namely, steel consumption (on a high base), M&HCV registrations (truck), infra credit, engineering goods' imports, and stamp duty collections. These trends suggest that the recovery in the investment activity in Q3 FY2025 was uneven across sectors.
- **Housing sales declined on YoY basis in Q3 FY2025:** The area sold in the top seven cities rose by a healthy ~15% QoQ in Q3 FY2025, owing to seasonality, although this was ~11% lower vis-à-vis Q3 FY2024. ICRA expects such sales to ease by 2-4% YoY to 670-685 msf in FY2025, owing to an elevated base (+17.4% in FY2024). With some of the project launches likely to spill over to FY2026, residential sales are expected to witness a rebound in the next fiscal, supported by the low inventory and sustained demand. The income tax relief is likely to benefit affordable and mid-income housing segments, while the onset of monetary easing augurs well for the overall industry.

Highlights - II

Project announcements remain healthy at over Rs. 8.0 trillion for the second straight quarter in Q3 FY2025, even as project completions were subdued at Rs. 1.1 trillion.

GoI's capex and 23 states' capital outlay and NL rose by 48% YoY and 11% YoY in Q3 FY2025, after declining in H1.

GoI's on-Budget capex is pegged at Rs. 11.2 trillion, 10% higher over the pared Rs. 10.2 trillion included in FY2025 RE. Besides, the GoI's effective capex growth is set at a healthy 17% in FY2026 BE, auguring well for boosting investment activity and GDP in the next fiscal.

High tax devolution, additional reform-linked borrowing and upward revision in 50Y capex loans would boost capex growth of state governments in FY2026.

- **Project announcements remained healthy, while completions were subdued in Q3 FY2025:** The momentum in new project announcements remained healthy in Q3 FY2025 (at Rs. 8.1 trillion) vis-à-vis Q2 FY2025 (Rs. 8.3 trillion), aided by investment fairs in Rajasthan, Bihar and Chhattisgarh during the quarter. These announcements were largely led by the private sector, with the steel and chemical segments accounting for a bulk of the proposed cost. Project commissioning, on the other hand, was restrained in Q3 FY2025, at Rs. 1.1 trillion, lower than Rs. 1.2 trillion in Q2 FY2025 as well as the historical average of Rs. 1.4 trillion seen during FY2012-2024, in contrast with the expectations of some pickup in project execution after the end of monsoons. While the large income tax relief provided in the Union Budget for FY2026 augurs well for domestic consumption, ICRA believes that private capex is likely to remain non-exuberant amid global headwinds and the subdued outlook for merchandise exports.
- **Government of India's on-budget capex to rise by ~10% in FY2026:** The GoI has placed the target for gross capital expenditure at Rs. 11.2 trillion in FY2026 BE, a growth of 10.1% from the revised Rs. 10.2 trillion for FY2025 (vs. BE of Rs. 11.1 trillion), which has been pared owing to the slowdown in H1. The YoY increase of Rs. 1.0 trillion in on-budget capex mainly stems from the undisclosed "new" schemes under the Ministry of Finance (by Rs. 0.3 trillion) and 50Y interest-free capex loans to state governments (by Rs. 0.3 trillion to Rs. 1.5 trillion). The offtake of the latter by the states would be guided by details on tied and untied portion of capex loans and conditionalities associated with the tied amount, while an early articulation of details for the new schemes would aid in an early kick off of capex by the Centre. Overall, including the sharp expansion in grants-in aid for capital assets, the GoI's effective capex is estimated to rise by 17.4% to Rs. 15.5 trillion in FY2026 BE from Rs. 13.2 trillion FY2025 RE, which would play an important role in boosting investment demand and GDP growth in the next fiscal.
- **GoI attempting to push capex through state governments:** Higher tax devolution to the states, Rs. 1.5 trillion allocation for interest-free 50-year capex loans*, as well as an extension of the power-sector reform-linked additional borrowing permission would boost states' capex growth in FY2026, and the extent of the same would become clear over the next couple of months once their budgets are presented. Additionally, the GoI's proposed pipeline of PPP projects to be drawn up would create an enabling environment for the private sector to shoulder some of the burden of infrastructure financing over the medium term.

~Refer to ICRA's publication on Union Budget Analysis for FY2026 published in February 2025.
*Refer to ICRA's publication on States' Capital Expenditure published in February 2025.

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Thank You!