ICRA

Investment Tracker

Momentum in investment activity lost steam in Q3 FY2024; outlook appears favourable for FY2025

FEBRUARY 2024

Highlights - I

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The YoY performance of eight of the 11 investment-related indicators moderated in Q3 FY2024, vis-à-vis Q2.

Value of new project announcements rose modestly to Rs. 2.4 trillion in Q3 FY2024; count of such proposals slid to lowest level since Q2 FY2005.

New investment announcements are likely to rise in Q4 FY2024 amid investor meets; however, there may be some transient caution in the run-up to the General Elections.

The momentum in India's investment activity lost steam in Q3 FY2024, with a deterioration in the year-on-year (YoY) performance of eight of the 11 investment-related indicators, compared to Q2, with a particularly sharp deceleration in indicators pertaining to the construction sector. This can be attributed to the slow down in the pace of capital spending by the Government of India (GoI) and state governments, as well as unfavourable base effects for some indicators. Besides, there was a muted increase in new investment proposals in Q3 FY2024, while the project completions were subdued. In contrast, household capex remained healthy, as reflected in record home sales for top seven cities in Q3 FY2024, aided by strong end-user demand. For FY2025, the investment outlook appears to be promising, with a double-digit growth in budgetary allocations for GoI's capex and interest-free capex loan to states. Besides, elevated capacity utilisation levels, sizeable order books for infra companies, and cleaner balance sheets of corporates lends a favourable climate for a pick-up in corporate capex, although there may be some transient caution in the run up to the General Elections. Nevertheless, the resilience of domestic demand remains key to determine the pace of capacity additions.

- **Performance of most investment-related indicators deteriorated in Q3 FY2024 vis-à-vis Q2 FY2024:** The YoY growth of eight* of the 11 indicators weakened in Q3 FY2024. The momentum of construction activity appears to have moderated in Q3 FY2024, partly owing to the slowdown in Government capex as well as an unfavourable base for some indicators. Additionally, after surging in H1 FY2024, capex-related ECB flows moderated sharply in Q3 FY2024, trailing the year-ago levels.
- **New project announcements rose modestly in Q3 FY2024:** The value of new project announcements rose modestly to Rs. 2.4 trillion in Q3 FY2024 from the 11-quarter low of Rs. 2.1 trillion in Q2 FY2024, even as the number of proposals slid to the lowest level since Q2 FY2005. The latter could suggest some caution among investors partly led by factors such as the escalation of geopolitical tensions in the Middle East. Going ahead, such announcements are likely to rise in Q4 FY2024, aided by investor meets in the early part of the quarter. However, the proposals are unlikely to be enthusiastic in the rest of the quarter amid caution prior to the Parliamentary Elections.

**These include Centre's capex, imported engineering goods, cement production, finished steel consumption, infra/construction goods output, capital outlay and net lending of states, CV registrations and stamp duty collections*

Highlights - II

The GoI's capex rose by ~38% on a YoY basis during 9M FY2024; it needs to rise by ~11% YoY in Q4 FY2024 to meet the FY2024 RE, suggesting a sequential slowdown in momentum.

Home sales in top seven cities surged to record levels in Q3 FY2024; ICRA expects volumes to grow by 13-15% in FY2024, and by 10-11% in FY2025.

Investment outlook appears promising in FY2025, with increase in allocation for GoI's on-budget capex (by 16.9%), elevated CU levels, strong order book, and cleaner balance sheets.

In ICRA's view, the capex cycle by private sector is likely to be measured and not excessively exuberant over the next few years.

- **GoI's capex required to rise by ~11% in Q4 FY2024 to meet RE:** The GoI's capital expenditure (YoY: +37.5%) and states' capital outlay and net lending (+30.7%) rose sharply during Apr-Dec FY2024, led by the upfronting of tax devolution and release of states' interest-free capex loan by the GoI. Going ahead, the GoI's capex needs to rise by ~11% YoY in Q4 FY2024 to meet the FY2024 RE (Rs. 9.5 trillion), entailing an average monthly run rate of ~Rs. 922 billion in Q4 FY2024 (Rs. 748 billion/month in 9M FY2024). Overall, ICRA remains apprehensive that the momentum of capex and execution of projects may slow down in the ongoing quarter, in the run-up to the General Elections.
- **Completion of Central infra sector projects moderated in 9M FY2024 in yearly terms:** Based on the data released by MOSPI, 216 Central infrastructure projects were completed up to Apr-Dec or 9M FY2024, amounting to Rs. 2.0 trillion, lower than the count and cost of completions witnessed in 9M FY2023 (229 / Rs. 2.3 trillion, respectively). The projects commissioned in 9M FY2024 were largely concentrated in sectors like roads, railways, petroleum, and health and family welfare. Based on the tardy pace of completions seen in 9M FY2024, the Central infra project completions in FY2024 are unlikely to surpass the Rs. 3.1 trillion seen in FY2023.
- **Housing sales touched record levels in Q3 FY2024:** Home sales touched record levels in Q3 FY2024, with the area sold in the top seven cities rising by a sharp 17.3% on a sequential basis to 205 mn sft, aided by strong end-user demand. Overall, ICRA expects the volumes to grow by 13-15% in FY2024, and by 10-11% in FY2025.
- **Investment outlook appears promising in FY2025; private capex likely to be measured:** The GoI has announced a healthy 16.9% YoY increase in capital expenditure to Rs. 11.1 trillion in the Interim Budget for FY2025, over FY2024 RE, including a rise in the allocation for capex loan scheme for states by 23.2% YoY for FY2025, which would continue to support investment demand. Besides, the outlook for household capex remains healthy, aided by strong end-user demand. ICRA remains relatively optimistic around the pick-up in corporate capex after the General Elections, given the backdrop of elevated capacity utilisation levels, sizeable order books, increased quantum of profits of listed companies in the post-Covid years and cleaner balance sheets. Nevertheless, the private sector capex cycle is likely to be measured and not excessively exuberant over the medium term.

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Thank You!