ICRA

INDIAN ECONOMY

GDP growth foreseen at 6.5% in FY2025, amid intermittent slowdown in first half of the fiscal

MARCH 2024

Agenda

ICRA

1 **FY2025 Growth Prospects**

2 **Update on Project Activity**

3 **Update on Financing**

4 **Inflation**

5 **Union Government Finances**

6 **Sectoral Trends**

Outlook

ICRA

Click to Provide Feedback

Spillover of tepid rural demand, a likely slowdown in the GoI's capex during General Elections and monsoon season and weakness in export growth will temper GDP growth in H1 FY2025

ICRA projects GDP growth at 6.5% in FY2025, amid back-ended improvement in H2 vis-à-vis H1

Earliest rate cut is likely in Oct 2024, after there is visibility on the monsoon turnout, sustenance of the growth momentum, and greater clarity on the US Fed's actions

Headwinds arising from continued tepid rural demand, slowdown in Government capex during the General Elections and monsoon period, persistent weakness in export growth, and dissipation of the benefit of deflation in global commodity prices, are likely to temporarily weigh upon the momentum of economic activity during H1 FY2025. We expect GDP growth to slow down intermittently to 5.5-5.9% in the first half of the next fiscal, before improving to 7.1-7.2% in H2 FY2025, aided by back-ended government capex, a likely pick-up in private capex, and some improvement in export growth. Overall, ICRA estimates the GDP and GVA growth at 6.5% and 6.2%, respectively, in FY2025. We expect the average CPI inflation to soften to 4.6% in FY2025, providing room for monetary easing, although the earliest rate cut only appears likely in the October 2024 meeting, after there is visibility on the monsoon turnout, sustenance of the growth momentum, and greater clarity on the US Federal Reserve's rate actions. The outlook for the Government of India's (GoI) fiscal deficit target and the current account deficit for FY2025 appears benign at the current juncture.

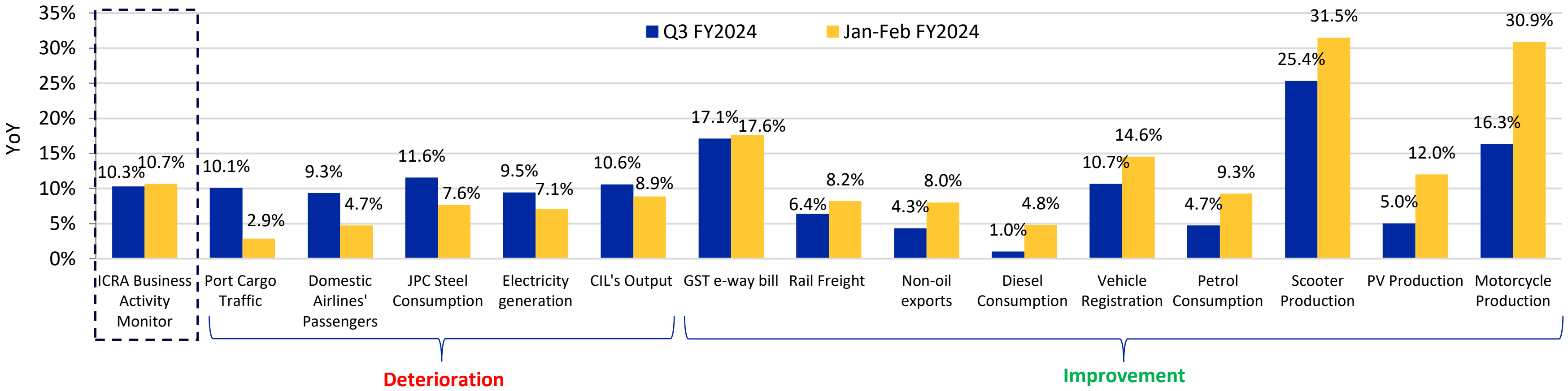
ICRA's Macroeconomic Projections	FY2024	FY2025
GDP Growth (at 2011-12 prices)	7.6%	6.5%
GVA Growth (at 2011-12 prices)	6.9%	6.2%
CPI Inflation (average)	5.3%	4.6%
WPI Inflation (average)	-0.7%	2% to 4%
Current Account Deficit (CAD)	Deficit of $33-35 billion; 1.0% of GDP	Deficit of $44-46 billion; 1.2% of GDP
INR	INR to trade between 82.5-83.5/$ in H1 FY2025	
G-sec Yields	10-year yield to range between 6.8-7.0% in H1 FY2025	
GoI's Fiscal Deficit	Rs. 17.3 trillion (5.9% of GDP vs. RE: 5.8% of GDP)	Rs. 16.9 trillion (5.2% of GDP vs. BE: 5.1% of GDP)
Policy repo rate	Rate cuts unlikely to begin before Q3 FY2025, amid shallow rate cut cycle of 50 bps at best	

GROWTH PROSPECTS FOR INDIA IN FY2025

YoY growth in ICRA Business Activity Monitor remained in double-digits in Jan-Feb FY2024, indicating robust growth momentum in first two months of Q4

ICRA

EXHIBIT: YoY performance of high frequency non-agri indicators in Q3 and Jan-Feb of FY2024



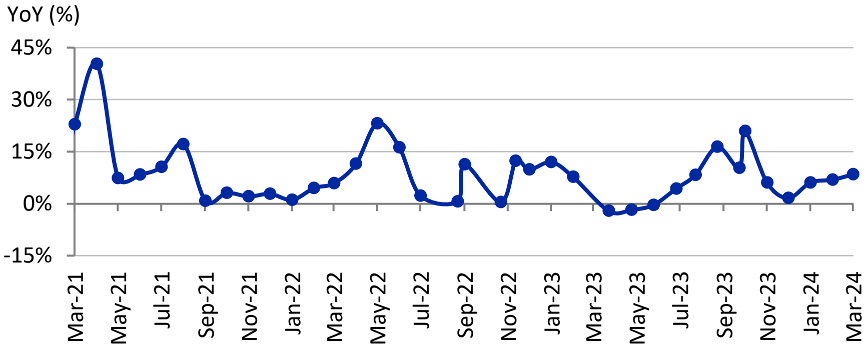
- The ICRA Business Activity Monitor- an Index of high frequency non-agri indicators, reported a marginal uptick in YoY growth to 10.7% during Jan-Feb FY2024 (+12.1% in Jan-Feb FY2023) from 10.3% in Q3 FY2024 (+9.5% in Q3 FY2023), indicating that economic momentum remained strong in the first two months of Q4.
- As many as nine of the 14 non-financial indicators witnessed an uptick in their YoY performance in Jan-Feb FY2024 relative to Q3 FY2024, although most of these pertained to the auto segment (PV and 2W output, vehicle registrations) and mobility/goods movement (petrol and diesel consumption, rail freight traffic, GST e-way bills). Non-oil export growth improved in Jan-Feb FY2024, contributing to the uptick in the Index. Notably, only five of these 14 indicators recorded a double-digit growth in Jan-Feb FY2024, as against seven in Q3 FY2024.
- Among the five indicators that displayed a moderation, the YoY growth in three of them remained healthy in Jan-Feb FY2024, namely, CIL's output, steel consumption, and electricity generation, while the ports cargo traffic and domestic airlines' passenger traffic rose by low-to-mid-single digits.

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

Early data for March 2024 is mixed

ICRA

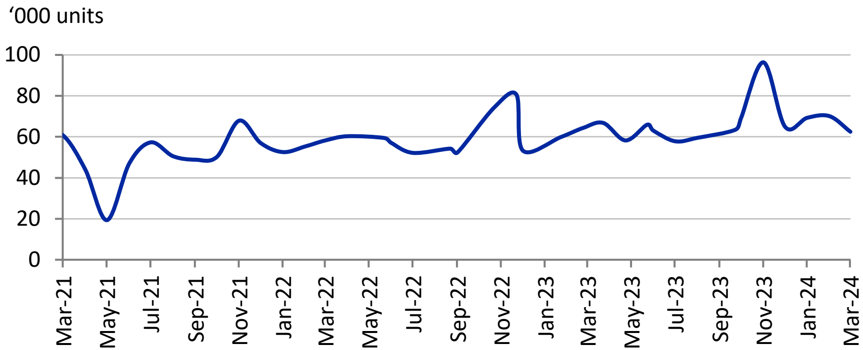
EXHIBIT: Electricity Demand at all-India level



Data for Mar 2024 is available till Mar 25, 2024; Source: POSOCO; ICRA Research

- The all-India electricity demand growth rose to 8.4% in Mar 2024 so far (till Mar 25, 2024) from 6.9% seen in Feb 2024, partly supported by a low base.
- Moreover, the average demand levels have remained elevated at 4.5 BU/day in Mar 2024, similar to the levels seen in Feb 2024.
- Despite elevated demand levels, the average spot power tariffs in the day-ahead-market (DAM) eased quite sharply to a 17-month low of Rs. 3.8/unit in Mar 2024 so far (up to Mar 26, 2024) from Rs. 4.9/unit in Feb 2024.

EXHIBIT: Daily average vehicle registrations at all-India level



Data for Mar 2024 is available till Mar 26, 2024; Source: Vahan, MoRTH; CEIC; ICRA Research

- As per the data provided on the Vahan portal, the average daily vehicle registrations stood at 62.5k units in March 2024 so far (up to Mar 26), 6.4% lower than the level recorded in March 2023 (66.7k units).
- On a sequential basis, this is 10.8% lower than the daily average of 70.0k units seen in Feb 2024. This is at odds with the typical sequential improvement seen in the month of March.

Agri GVA estimated to rise to 3.4% in FY2025, based on assumption of a normal and well-distributed monsoon

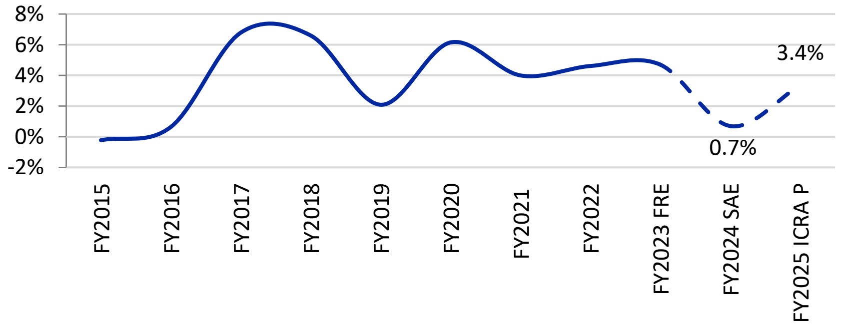
ICRA

EXHIBIT: YoY trends in kharif and rabi production as per Second Advance Estimates (SAE) for 2023-24 vs. Final Estimate for 2022-23

	Kharif Production			Rabi Production		
Million tonne	Final Estimate 2022-23	2nd AE 2023-24	YoY (%)	Final Estimate 2022-23	2nd AE 2023-24	YoY (%)
Wheat		NA		110.6	112.0	1.3%
Rice	110.5	111.5	0.9%	15.0	12.4	-17.6%
Coarse Cereals	37.6	35.6	-5.2%	15.9	14.5	-9.2%
Pulses	7.6	7.1	-6.6%	16.4	16.3	-0.2%
Oilseeds	26.2	22.8	-12.7%	14.2	13.8	-2.8%
Cotton*	33.7	32.3	-4.0%		NA	
Sugarcane	490.5	446.4	-9.0%		NA	

**Million bales of 170 kg each; Source: Ministry of Agriculture and Farmers' Welfare; ICRA Research*

EXHIBIT: YoY trends in GVA of agriculture, forestry and fishing

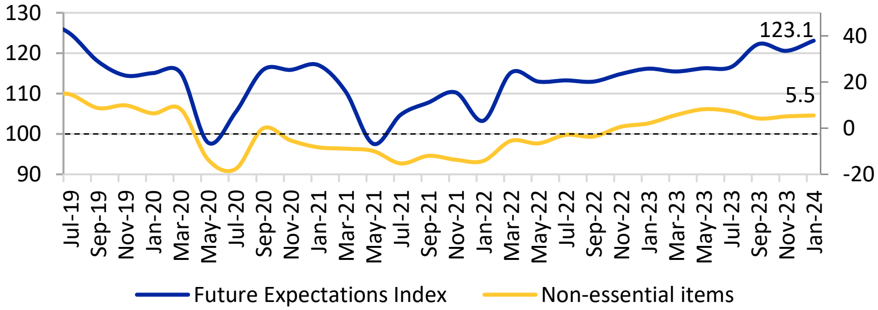


P: Projected; Source: NSO; CEIC; ICRA Research

- As per the SAE for 2023-24, the output of most rabi crops, barring wheat (+1.3%; record), is anticipated to decline, compared to final estimates of 2022-23, albeit in a wide range of 0.2% for pulses to as much as 17.6% for rice. The sobering decline in the rabi output for rice and coarse cereals can be partly attributed to a sharp dip in their yields amidst persistent El Nino conditions. Notably, the kharif output for oilseeds, cotton and sugarcane have undergone upward revisions in the SAE for 2023-24, thereby reflecting that the quarterly agri GVA growth estimates for Q2-Q3 FY2024 may be revised up as well.
- The NSO has pegged the agri GVA growth at an eight-year low of 0.7% in FY2024 SAE (+4.7% in FY2023 FRE), amid the decline in output of several major crops. The GVA of the other sub-sectors of agri, including fishing and aquaculture (CAGR during FY2018-23: +7.5%), livestock (+6.8%) and forestry and logging (+4.2%) typically grow at a much faster pace than that of crops (+2.7%), which is believed to have supported the overall agri GVA performance in FY2024.
- **Looking ahead, ICRA believes that the ongoing weakness in rural sentiments and consumption on account of the uneven monsoon and lower crop output in FY2024 is likely to spill over into the first half of FY2025, until there is some visibility around the farm cash flows from rabi procurement and outcomes for the next kharif crop. Assuming a normal, well-distributed monsoon in our base case scenario, the GVA growth of agriculture, forestry and fishing is estimated at ~3.4% in FY2025.**

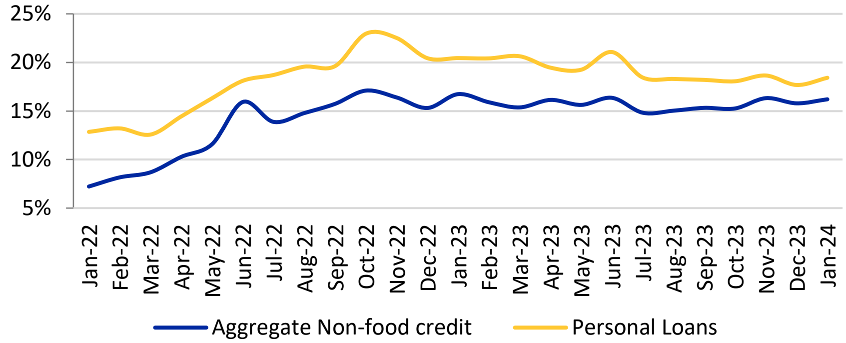
Urban consumption expected to remain healthy, albeit uneven in FY2025

EXHIBIT: Trends in the Future Expectation Index of RBI's CCS and net response* for one-year ahead expectations for non-essential items



**Net response is the difference between the % of respondents reporting optimism and those reporting pessimisms. Any value greater than zero indicates expansion/ optimism and values less than zero indicate contraction/ pessimism. Source: RBI; ICRA Research*

EXHIBIT: YoY trends in aggregate non-food bank credit and personal loans



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

- The outlook for urban demand remains upbeat amid elevated forward looking consumer sentiments, as reflected by the RBI's Future Expectation Index, which rose to a four-year high of 123.1 in the Jan 2024 round. Encouragingly, the one-year ahead expectations on non-essential spending has continued on an upward trajectory since Sep 2023, although the proportion of urban households/respondents (74.2% in Jan 2024 round) expecting an increase in overall spending over the next one year is yet to reach the pre-pandemic levels (average of 79% in FY2019-20). Nevertheless, indicators pertaining to discretionary spending, such as sales of passenger vehicles, hotel occupancy levels and domestic air passenger traffic have remained healthy through FY2024.
- **In ICRA's view, urban consumption demand is projected to remain upbeat, albeit uneven in FY2025. The high-income households, and new entrants into the formal labour markets that have a relatively high propensity to consume, would continue to drive urban demand in FY2025. The consumption of low- and middle-income households, which is assessed to have been tepid lately, may improve modestly, aided by expectations of a cooling in the inflation in essential food items. Nevertheless, the recent tightening of norms for personal loans and credit cards by the RBI could adversely impact credit growth for these segments, which may weigh on discretionary consumption of urban households.**

Government capex anticipated to slow down in H1 FY2025, owing to Elections and onset of monsoon

EXHIBIT: YoY trends in Gross capital expenditure of Centre and 26 state governments*

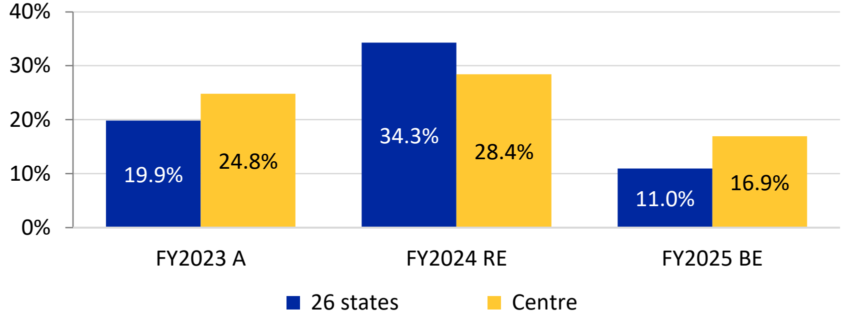
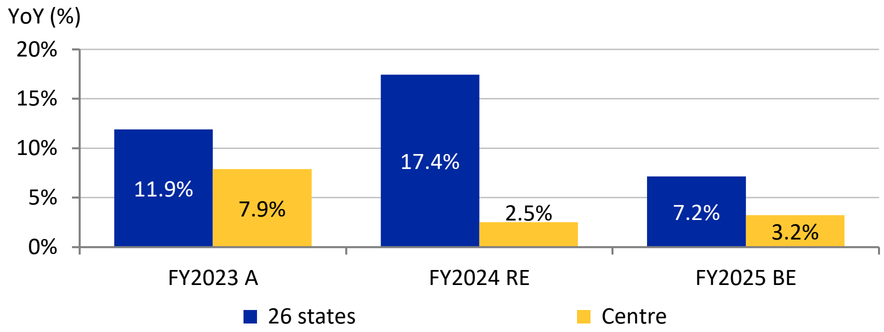


EXHIBIT: YoY trends in Revenue Expenditure of the Centre and 26 state governments*

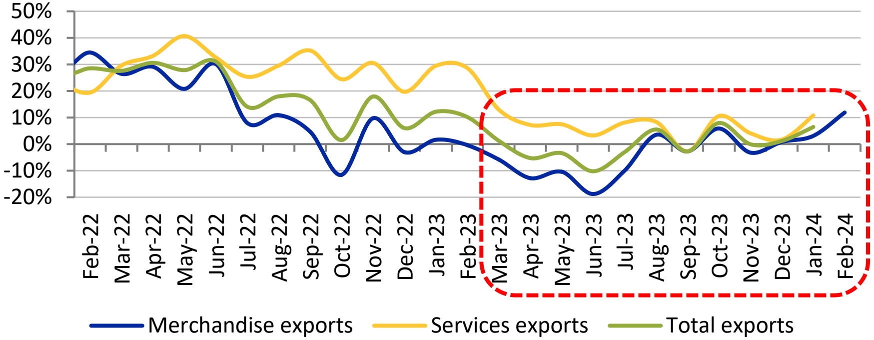


*A: Actuals; Actuals for FY2021-23; RE: Revised Estimates; BE: Budget Estimates; *26 states except Arunachal Pradesh and Sikkim; Source: Union Budget, State Budgets; ICRA Research*

- The GoI has pegged its on-budget capex growth at 16.9% in FY2025 BE, as against the 25-30% expansion seen during each of the last four years. Additionally, the growth in the aggregate capex of 26 states* is pegged to moderate to 11.0% in FY2025 BE (over FY2024 RE) from 34.3% in the FY2024 RE and the 19.9% growth seen in FY2023 Actuals.
- **In addition to the slowdown in the budgeted growth, the onset of General Elections in early-FY2025 would impact the momentum of GoI's capex in the first few months of the fiscal. Thereafter, with the monsoon setting in from June, project execution and construction activities are likely to slow down, suggesting that capex may only pick up in a back-ended manner in FY2025, post the announcement of the full Budget and the end of the monsoon period.**
- Additionally, the GoI has penciled in a modest growth of 3.2% in its revex in FY2025 BE over FY2024 RE, in line with the low single digit growth seen in each of the last two years. While the aggregate revex of 26 states* is pegged to rise by a relatively higher 7.2% in FY2025 BE (over the FY2024 RE) vis-à-vis that of the GoI, this entails a slowdown relative to the 17.4% growth estimated in FY2024 RE (and the 11.9% seen in FY2023 Actuals). **These trends are likely to dampen the YoY GVA growth of public administration, defence and other services (PADOS) in FY2025.**

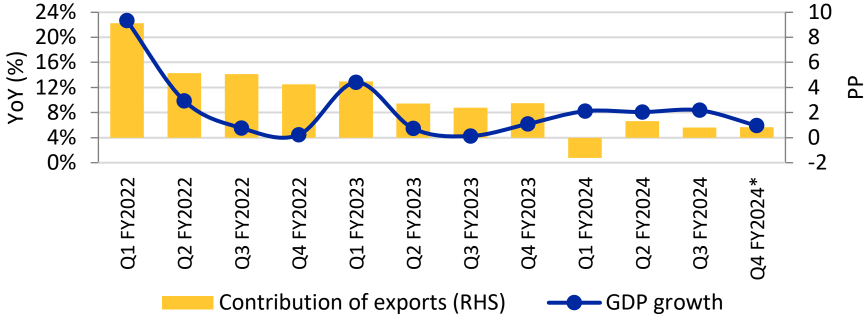
External demand likely to remain tepid in H1 FY2025

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



Services exports data for Feb 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

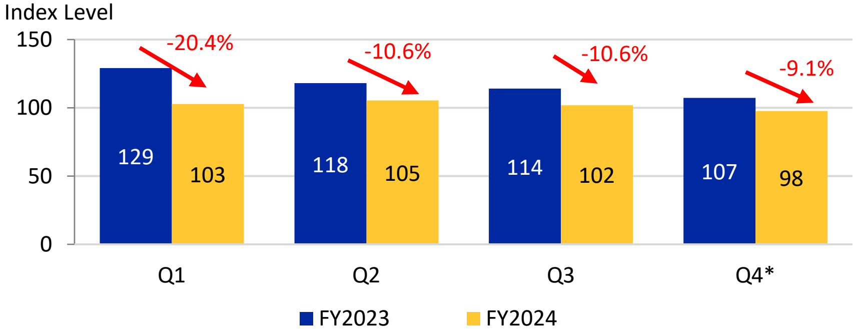


**Data for Q4 FY2024 is implicitly calculated based on data for 9M FY2024 and SAE for FY2024; Source: NSO; CEIC; ICRA Research*

- As per the NSO, exports contributed a marginal 0.2 percentage points to the real GDP growth in 9M FY2024. Moreover, the contribution of exports to the real GDP growth stood at a low 0.4 pp in the FY2024 second advance estimates (SAE), relative to 3.0 pp in FY2023 first revised estimates (FRE).
- **At present, ICRA has pencilled in a YoY growth of 2-3% in merchandise exports in FY2025 (-3% to -4% expected in FY2024). On the services front, exports of IT services may remain modest in FY2025, stemming from persistent uncertainty in key markets, resulting in pauses or deferral of non-critical projects and slowdown of discretionary IT spends by key sectors. However, the export performance of non-IT services (including Global Capability Centres) may continue to remain healthy in FY2025.**
- **Overall, ICRA believes that the weakness in total exports is likely to persist in early-FY2025, and they are unlikely to contribute significantly to GDP growth during this period. Thereafter, export growth is expected to improve in H2 FY2025, after monetary easing begins in major economies, which is likely to lead to some recovery in demand.**

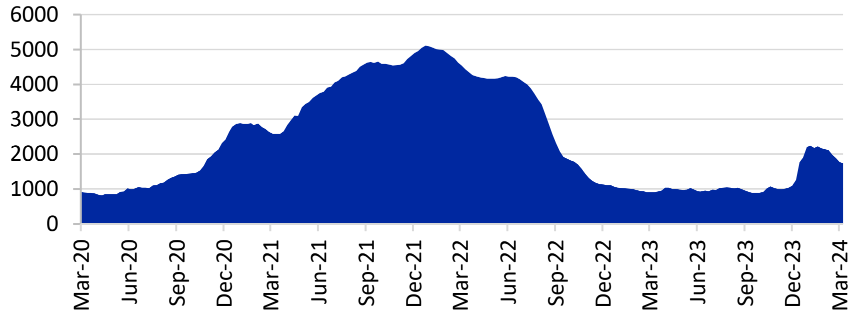
Commodity price deflation sustained in Q4 FY2024; benefit will narrow in Q1 FY2025

EXHIBIT: Average quarterly trends in Bloomberg Commodity Price Index



Data for Q4 FY2024 is available till March 25, 2024; Source: Bloomberg; ICRA Research

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

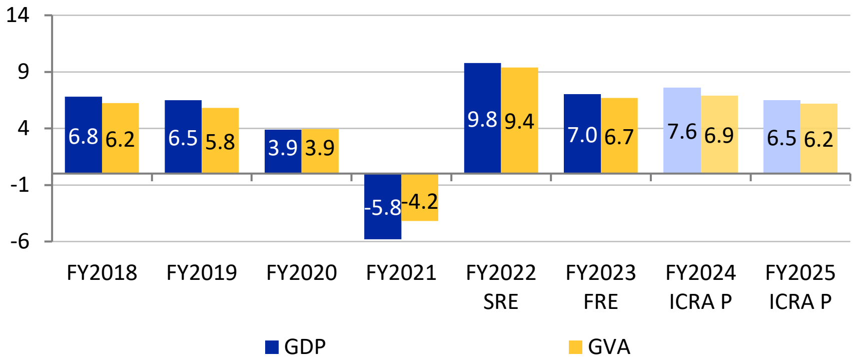


Source: Bloomberg; ICRA Research

- Global commodity prices have remained benign in the ongoing quarter, partly owing to growing demand concerns from China, adequate supplies for commodities like crude oil, and normalisation of supply chains. The Bloomberg Commodity Index is trending 9.1% lower than the year-ago levels in Q4 FY2024 (till Mar 25, 2024), albeit narrower than the deflation seen during Q2-Q3 FY2024. This is likely to have supported profit margins of some industrial sectors such as manufacturing during the ongoing quarter.
- However, this benefit on account of the deflation in global commodity prices is expected to narrow in Q1 FY2025. In addition, the recent surge in container freight rates owing to disruptions in the Red Sea region remains a monitorable, as this could push up commodity prices.

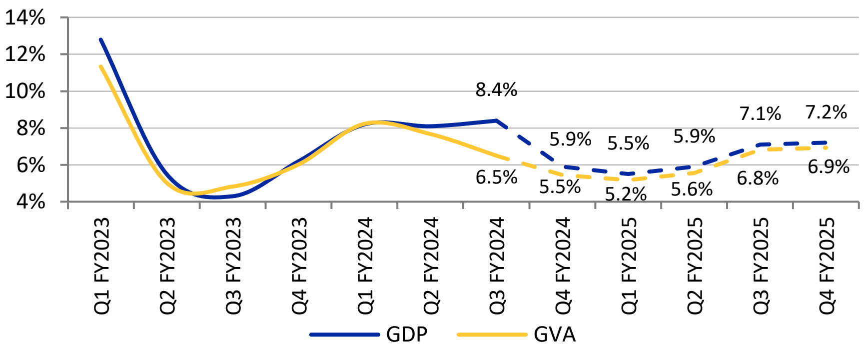
YoY growth in GVA and GDP to print at 6.2% and 6.5% in FY2025, respectively

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



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

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



Source: NSO; CEIC; ICRA Research

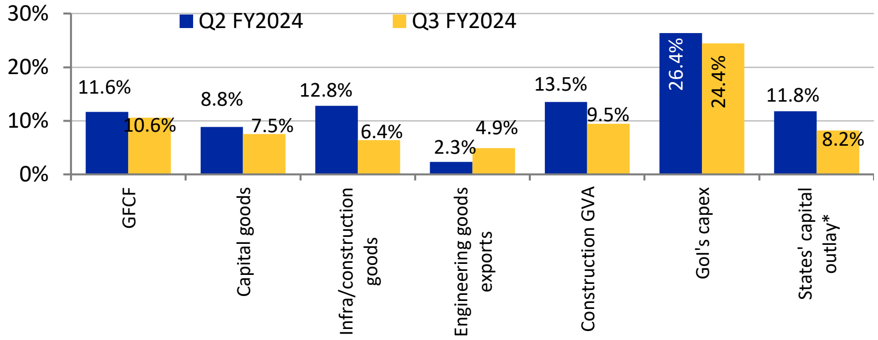
- **ICRA estimates the GVA growth at 6.2% for FY2025, after a projected expansion of 6.9% for FY2024.** Based on the assumptions for FY2025 in the Interim Budget, indirect tax growth is indicated to improve (to +9.4% in FY2025 from +7.3% in FY2024), while the YoY contraction in subsidy outlay (food, fertiliser and fuel) is budgeted to narrow quite sharply (to -7.8% from -22.1%, respectively), leading to a likely slowdown in the growth for net indirect tax component, compared to FY2024. This is expected to compress the wedge between the GDP and GVA growth in FY2025. **Consequently, ICRA estimates the GDP growth at 6.5% for FY2025 (+7.6% in FY2024).**
- Based on the factors mentioned previously, the growth in economic activity is likely to remain subdued during the first half of FY2025, with **the YoY growth in GDP expected to range between 5.5-5.9% during H1 FY2025.**
- Thereafter, the pace of expansion in GDP is expected to pick up during H2 FY2025, boosted by the GoI's capital expenditure, pickup in construction activity post the monsoon period, as well as the seasonal uptrend in economic activity seen during the festive period. **Overall, ICRA expects the YoY growth in GDP at 7.1-7.2% in H2 FY2025.**

UPDATE ON PROJECT ACTIVITY

YoY growth in GFCF eased mildly in Q3 FY2024, albeit remaining in double-digits; new and completed projects rose marginally in that quarter

ICRA

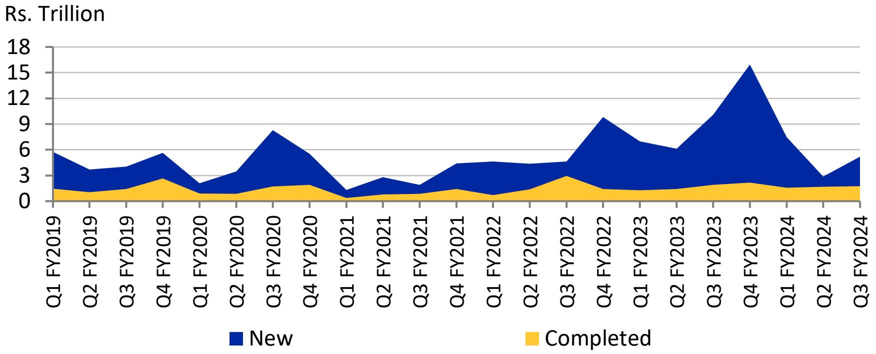
EXHIBIT: YoY (%) trends in GFCF, capital goods, GoI capex and states' capex



**26 states except 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 GFCF eased slightly to 10.6% in Q3 FY2024 from 11.6% in Q2 FY2024, while remaining in double digits.
- While the YoY growth of investment-related indicators such as the output of capital goods (to +7.5% from +8.8%), construction GVA (to +9.5% from +13.5%), and infrastructure/construction goods output (to a five-quarter low +6.4% from +12.8%) deteriorated, that for engineering goods exports (to +4.9% from +2.3%) improved in Q3 FY2024 vis-à-vis Q2 FY2024.
- The GoI's capex rose by a healthy 24.4% YoY in Q3 FY2024 (+26.4% in Q2 FY2024), while the aggregate capital outlay and net lending of the aforesaid 26 states* rose by a slower 8.2% YoY in the quarter (+11.8% in Q2 FY2024).

EXHIBIT: New and completed investment projects

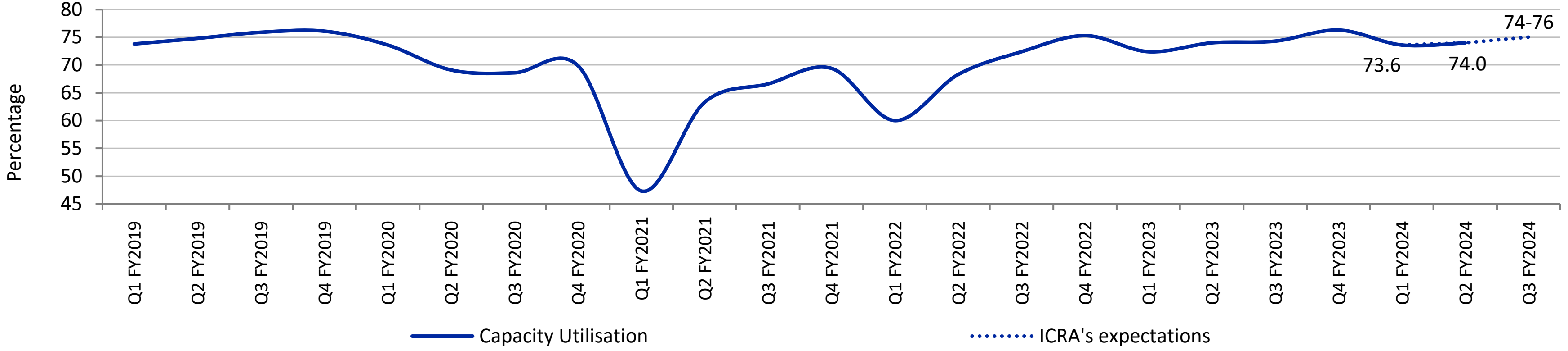


As on Mar 19, 2024; Source: CMIE, ICRA Research

- The value of new project announcements rose to Rs. 5.2 trillion in Q3 FY2024 from Rs. 2.9 trillion in Q2 FY2024. **New investment proposals are likely to increase sharply in Q4 FY2024, aided by investor meets in several states in the early part of the quarter. However, there may be some transient caution in the run up to the General Elections, resulting in a moderation in the number of announcements in the later part of the quarter and during Q1 FY2025.**
- Project completions also rose marginally to Rs. 1.74 trillion in Q3 FY2024 from Rs. 1.68 trillion in Q2 FY2024, largely driven by the public sector (Rs. 1.3 trillion), while private sector completions were lacklustre at Rs. 0.4 trillion in the quarter.

Capacity utilisation expected to have remained healthy in Q3 FY2024

EXHIBIT: Quarterly trends in Capacity Utilisation

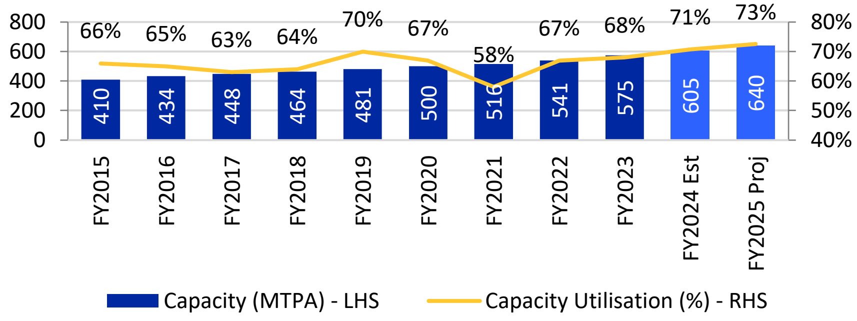


Source: RBI; CEIC; ICRA Research

- After recording a seasonal moderation to 73.6% in Q1 FY2024, the capacity utilisation (CU) of the manufacturing witnessed a marginal uptick to 74.0% in Q2 FY2024. **Subsequently, it is expected to have remained at 74-76% in Q3 FY2024, aided by a robust demand for goods during the festive season.**
- **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

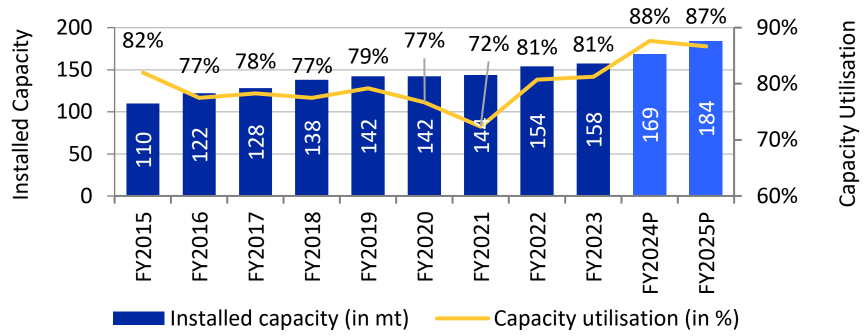
EXHIBIT: Annual trends in cement capacity utilisation



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 rose marginally to 5.6% in Jan 2024 from 5.3% in Q3 FY2024, amid sustained demand from the housing and infrastructure sectors.
- **ICRA expects cement output to grow by 9-10% YoY to around 425-430 million MT in FY2024 and by 8-9% YoY to around 460-465 million MT in FY2025. The volume growth in FY2025 is likely to be impacted by the expected slowdown in construction activity in Q1 FY2025 with a delay in release of funds towards ongoing infra projects owing to the General Elections during the quarter.**
- **The cement CU is expected to increase to 71-73% in FY2024-FY2025 from 68% in FY2023 owing to the healthy growth in cement volumes despite the continued expansion in capacity.**

EXHIBIT: Annual trends in steel capacity utilisation



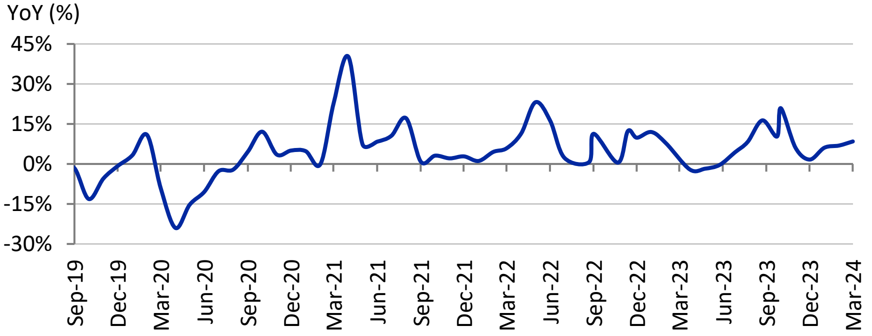
P: Projected; Source: Ministry of Steel; JPC; ICRA Research

- The growth in domestic steel demand eased to 7.6% YoY during Jan-Feb 2024 from 11.6% in Q3 FY2024. **ICRA expects steel demand growth at a robust 12.8% in FY2024, before decelerating to 7-8% in FY2025, with an anticipated slowdown in Government capex during the General Election period.**
- India's finished steel exports rose by 3.6% YoY to 5.52 MT in Apr-Jan FY2024. Overall, exports are expected to be marginally higher at ~6.9 MT in FY2024 vs. 6.7 MT in FY2023. For FY2025, rising tensions in the Middle-East and subpar economic outlook for key global consumption hubs is likely to keep steel exports under check.
- **ICRA expects the steel CU to rise to a decadal high of ~88% in FY2024, before dipping marginally to ~87% in FY2025, despite the strong domestic demand.**

All-India thermal PLF set to reach ~69% in FY2025, led by demand growth of 5.5-6.0%

ICRA

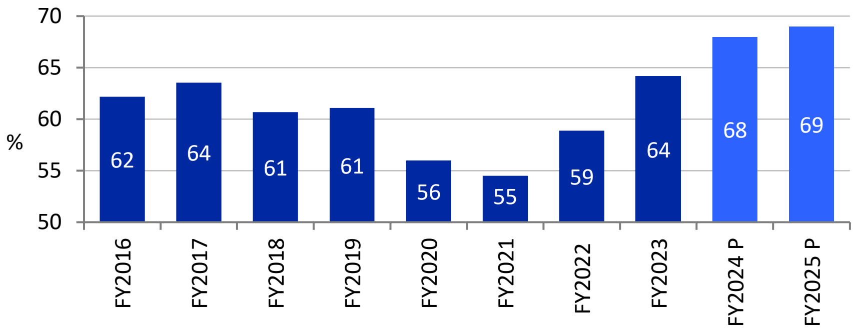
EXHIBIT: All-India Electricity demand



Data for March 2024 is till March 25, 2024; Source: POSOCO; CEIC; ICRA Research

- The YoY growth in all-India electricity demand rose to 8.4% during Mar 1-25, 2024, from 6.9% in Feb 2024. Moreover, the average demand levels have remained elevated at 4.5 BU/day in Mar 2024, similar to the levels seen in Feb 2024. Electricity demand **growth is estimated at 7.0-7.5% in FY2024, before moderating to 5.5-6.0% in FY2025.**
- The average spot power tariff in the DAM eased quite sharply to a 17-month low of Rs. 3.8/unit in Mar 2024 (up to Mar 26, 2024) from Rs. 4.9/unit in Feb 2024. **Going ahead, the spot power tariffs are expected to moderate in FY2025, compared to the levels seen in FY2023 and FY2024, given the decline in open market coal prices including imported coal, lower demand growth and rise in installed power generation capacity.**

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



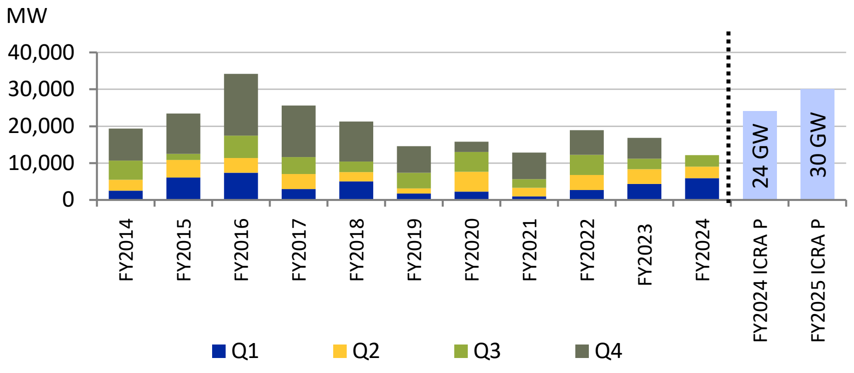
P: Projected; Source: CEA; ICRA Research

- **The all-India thermal PLF expected to improve to ~69% in FY2025 from ~68% expected in FY2024.**
- **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 ~24 GW expected in FY2024

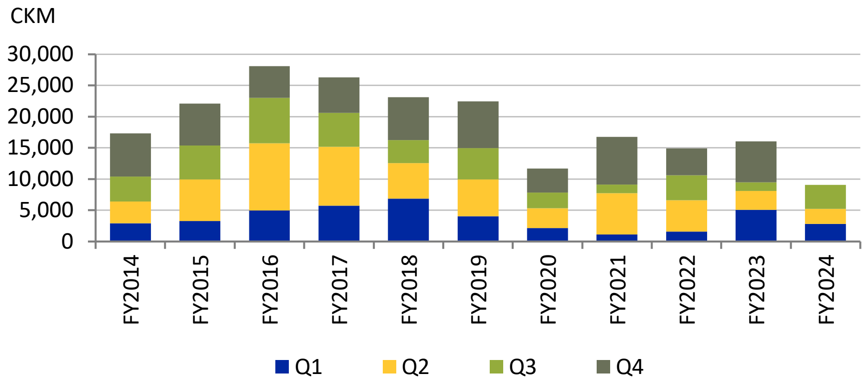
ICRA

EXHIBIT: Trends in power generation capacity addition



P: Projected; Source: CEA; ICRA Research

EXHIBIT: Trends in power transmission capacity addition



Source: CEA; ICRA Research

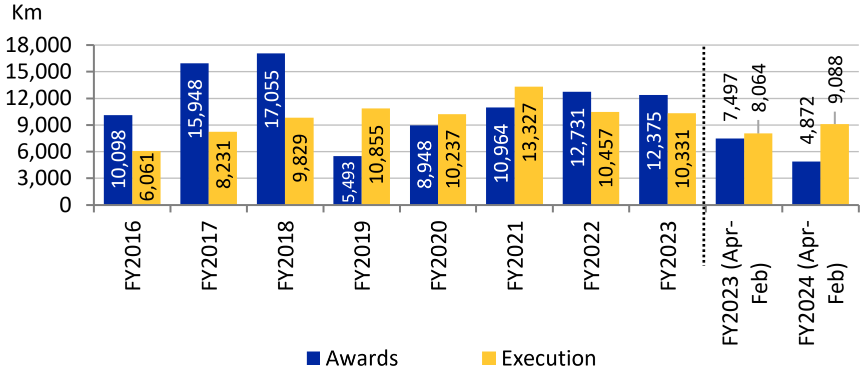
- Power generation capacity addition rose by 10.4% YoY to 3.1 GW in Q3 FY2024 from 2.8 GW in Q3 FY2023, after declining sharply in Q2 FY2024 (YoY: -21.4%).
- **ICRA expects power capacity addition to rise to ~24 GW in FY2024 from 16.9 GW in FY2023, led by higher additions in the renewable (RE) and thermal segments, with a sizeable addition expected in the last quarter. Further, capacity addition is expected to improve to ~30 GW in FY2025 owing to higher RE capacity additions.**

- The transmission line addition more-than-doubled to 3,841 CKMs in Q3 FY2024 from 1,418 CKMs in Q3 FY2023. Nevertheless, additions during 9M FY2024 (9,047 CKMs) trailed the corresponding year ago levels (9,489 CKMs).
- **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 11-16% in FY2024; hotel occupancy levels to improve aided by leisure and business travel, demand from MICE

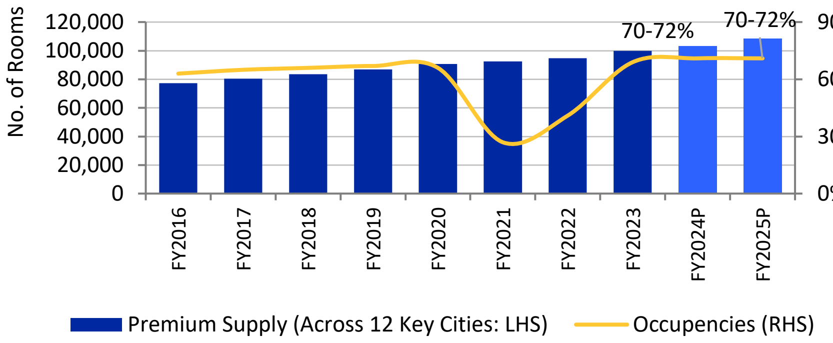
ICRA

EXHIBIT: Trends in road awards and execution



Source: MoRTH; ICRA Research

EXHIBIT: Annual trends in premium hotel occupancy



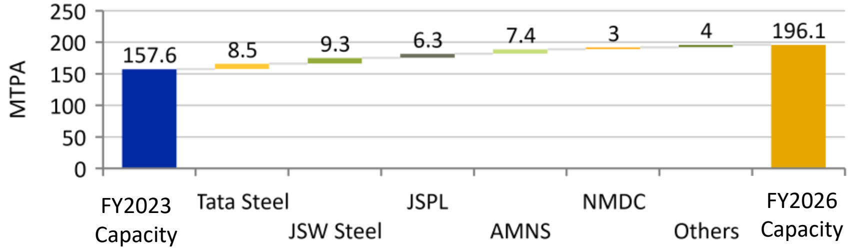
P: Projected; Source: ICRA Research

- The execution of National Highways (NH) has risen by a healthy 12.7% YoY to 9,088 Kms during Apr-Feb FY2024. The pace of expansion in the execution of NHs improved to 23.8% during Jan-Feb FY2024 from 21.2% in Q3 FY2024.
- **ICRA expects the MoRTH execution to rise by 11-16% to 11,500-12,000 km (32-33 km/day) in FY2024. Thereafter, it is expected to witness a muted growth to 12,000-12,500 km (33-34 km/day) in FY2025.**

- The pan-India premium hotel occupancy levels printed at a healthy 70-72% during Apr-Feb FY2024.
- **Overall, ICRA estimates pan-India premium hotel occupancy at 70-72% in FY2024, supported by sustenance of leisure travel, demand from MICE and business travel, as well as an improvement in foreign tourist arrivals (FTAs).**
- **Thereafter, it is expected to remain strong at 70-72% during FY2025.**

Capacity expansion plans announced by certain sectors – I

EXHIBIT: Domestic steel capacity addition plans likely to gather pace during FY2024-26



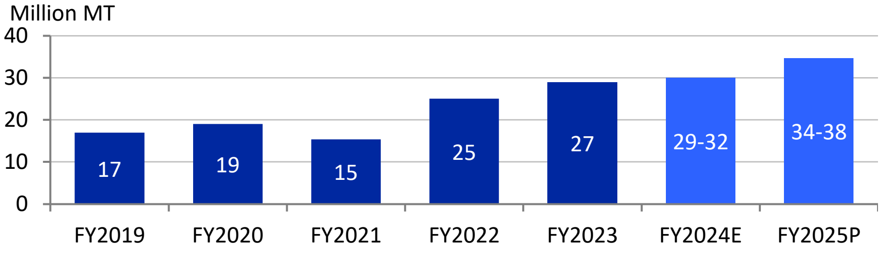
Source: Ministry of steel; ICRA Research

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

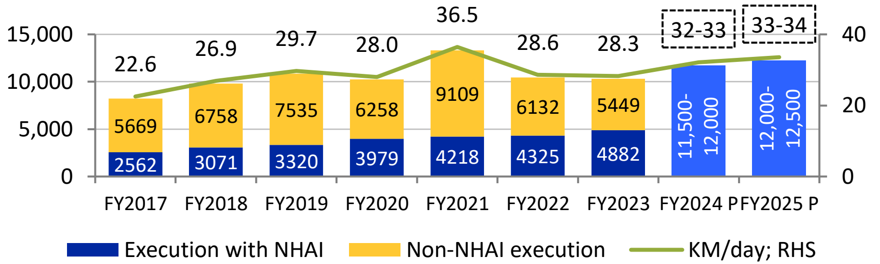
Source: ICRA Research

EXHIBIT: Increase in cement capacity expected at 29-32 MTPA in FY2024 and 34-38 MTPA in FY2025, supported by strong 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 to witness muted growth in FY2025 after rising by a robust 11-16% in FY2024 (in KM)



P: Projected; Source: MoRTH; ICRA Research

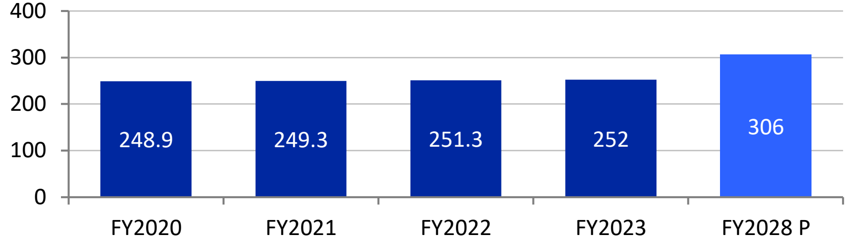
Capacity expansion plans announced by certain sectors – II

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

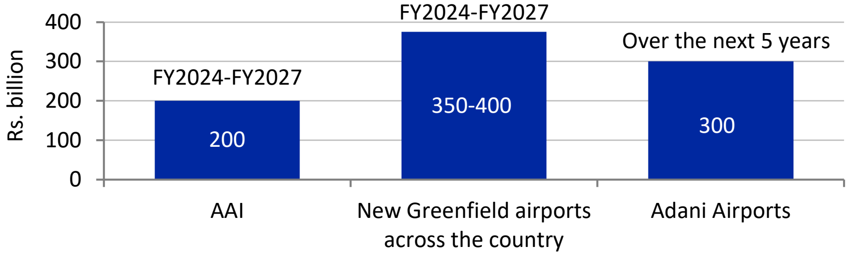
**To increase total production to 500,000 kopd in three years; Source: ICRA Research*

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



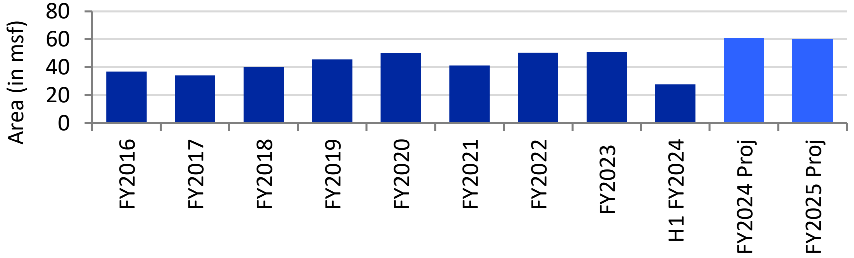
Values as at end-March; Proposed; Source: PPAC; ICRA Research

EXHIBIT: Committed investments of around Rs. 550-600 billion are in the pipeline to develop airport infrastructure during the period FY2024-FY2027



Source: AAI; ICRA Research

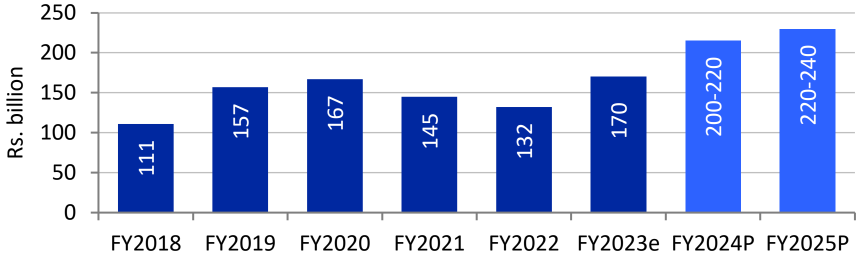
EXHIBIT: Incremental supply for commercial real estate for top 6 Indian office markets likely to be around 60-62 mn sft each in FY2024 and FY2025



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

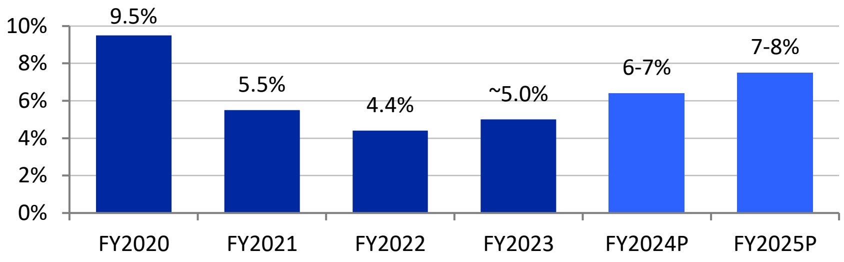
Capacity expansion plans announced by certain sectors – III

EXHIBIT: Capex by PV OEMs estimated to be around Rs. 200-230 billion per year over the next 3-4 years



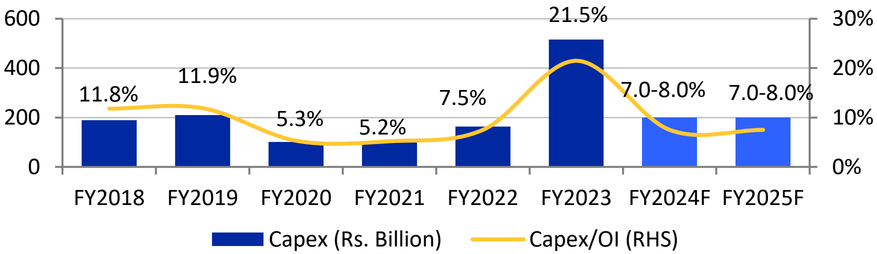
e: estimate; P: Projected; Source: ICRA Research; CMIE; Sample set of 6 leading PV OEMs

EXHIBIT: Capex as % of sales expected at 7-8% for India's large Auto Ancillaries led by capacity enhancements and technological developments



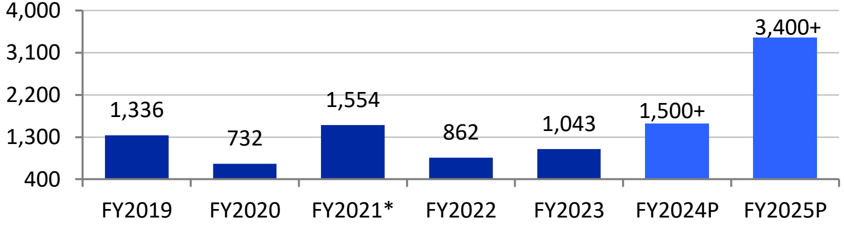
Source: ICRA Research; large auto ancillaries across various product segments

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

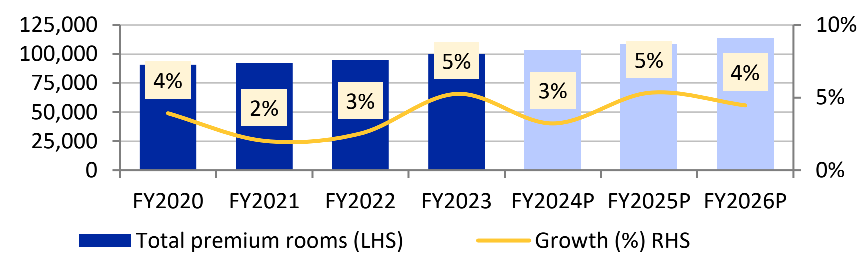
EXHIBIT: Hospital bed additions for ICRA sample set to double in FY2025



*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*

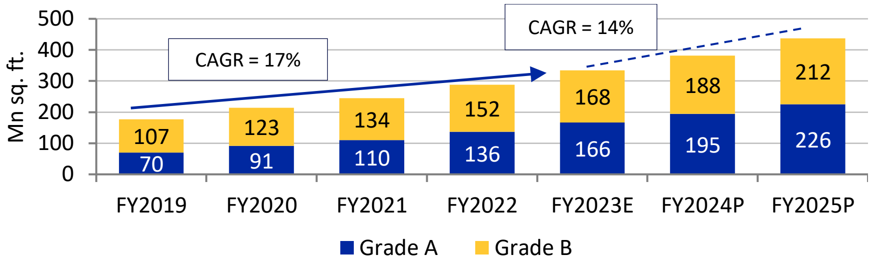
Capacity expansion plans announced by certain sectors – IV

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 14% by during FY2024-25



Source: ICRA Research, Various IPCs

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 roll-out 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 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 rose to 11.8% at end-Dec 2023, vis-à-vis end-Sep 2023

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

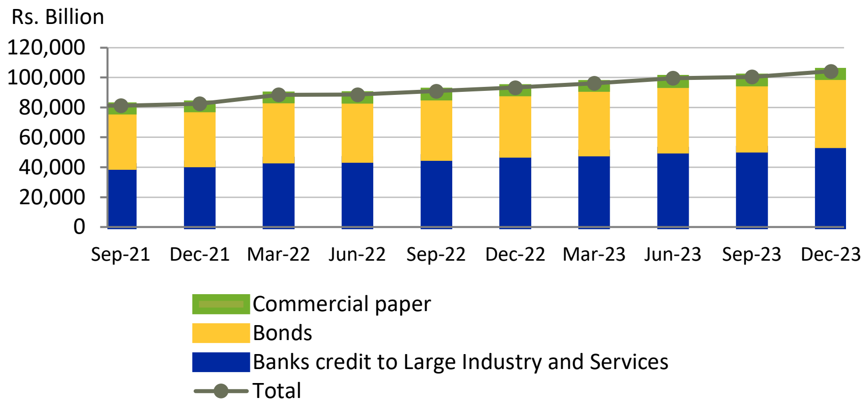
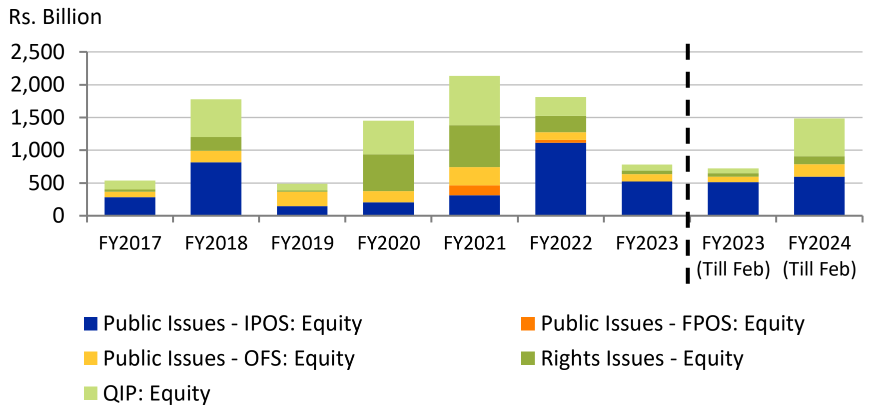


EXHIBIT: Trends in domestic equity funds raising



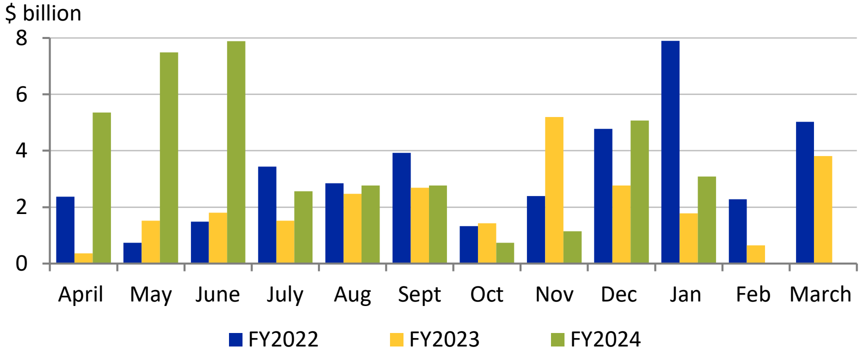
- The YoY growth in total financing* rose to 11.8% at end-Dec 2023 from 10.4% at end-Sep 2023, printing in double digits for the third consecutive quarter. This was driven by an improvement in the growth of corporate bonds outstanding (to a four-quarter high +11.3% from +9.6%) and bank credit (to +12.9% from +11.8%) during the quarter ended-Dec 2023 vis-à-vis the previous quarter. In contrast, the YoY growth for CPs outstanding (to +1.3% from +2.8%) eased between these quarters.
- The expansion in financing at end-Dec 2023 displayed a mild decline from the year-ago level of 13.0% at end-Dec 2022, led by a broad-based easing in growth across all instruments, such as bank credit (+12.9% at end-Dec 2023 vs. +15.2% at end-Dec 2022), CPs outstanding (+1.3% vs. +2.7%), and corporate bonds (+11.3% vs. +11.6%).
- Domestic equity funding more-than-doubled to Rs. 1.5 trillion in Apr-Feb FY2024 from Rs. 0.7 trillion in Apr-Feb FY2023. Additionally, net FII-equity inflows have eased to $1.7 billion in Q4 FY2024 so far (up to Mar 22, 2024) from $6.1 billion in Q3 FY2024, amid large outflows in Jan 2024 (-$3.1 billion) owing to subdued corporate earnings as well as geopolitical tensions. **Going ahead, developments around tensions in the Middle East, expectations of rate cuts in the US and their implications for the DXY and INR, caution before the upcoming General Elections, 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*

Gross ECB approvals in Apr-Jan FY2024 surpassed full-year FY2023 levels, amid surge in capex-related issuances

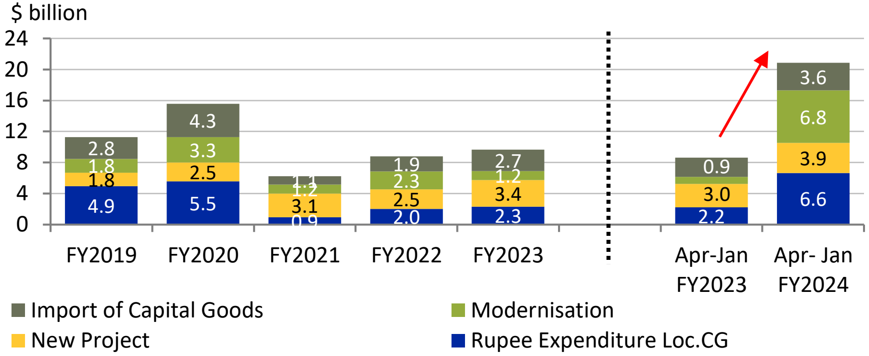
ICRA

EXHIBIT: Monthly Gross ECB volumes



Source: RBI; ICRA Research

EXHIBIT: Trends in ECB approvals by purpose



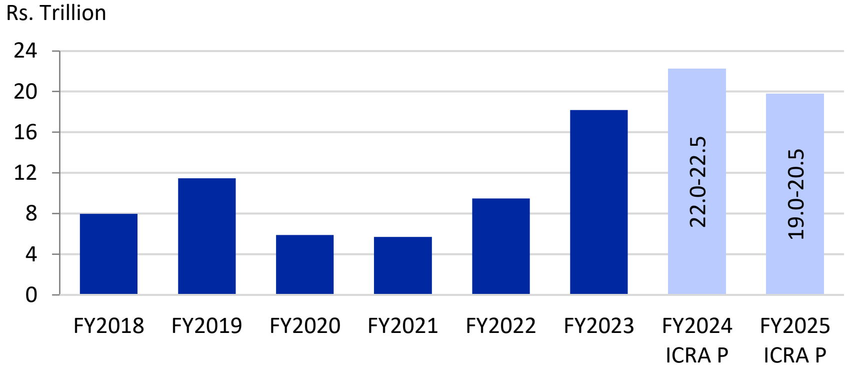
Rupee expenditure Loc.CG: Local Sourcing of Capital Goods (Rupee Expenditure); Source: RBI: ICRA Research

- The cumulative gross external commercial borrowings (ECB) approvals surged to $38.9 billion during Apr-Jan FY2024 from $21.5 billion during Apr-Jan FY2023, while also surpassing total ECB flows during full-year FY2023. This was mainly driven by capex-related approvals, including those for modernisation (to $6.8 billion in Apr-Jan FY2024 from $0.9 billion in Apr-Jan FY2023), rupee expenditure on local capital goods (to $6.6 billion from $2.2 billion), import of capital goods (to $3.6 billion from $2.5 billion), and new projects (to $3.9 billion from $3.0 billion); together, these accounted for ~60% of the total ECB approvals during Apr-Jan FY2024.
- However, the pace of uptick slowed from $20.7 billion in Q1 FY2024 to $8.1 billion in Q2 FY2024 and further to $7.0 billion in Q3 FY2024. Thereafter, such approvals stood at $3.1 billion in Jan 2024, while surpassing the year-ago level ($1.8 billion in Jan 2023).
- **Led by the surge seen in Q1 FY2024, ICRA expects ECB approvals to increase to $40-42 billion in FY2024 from $26.6 billion in FY2023. Going forward, a broad-based uptick in ECB approvals is unlikely in the near term, amidst elevated borrowing costs. Additionally, if such costs persist, then borrowers could shift to domestic sources of financing, containing the actual inflows from this source.**

Non-food bank credit growth expected to moderate to 11.7-12.5% in FY2025

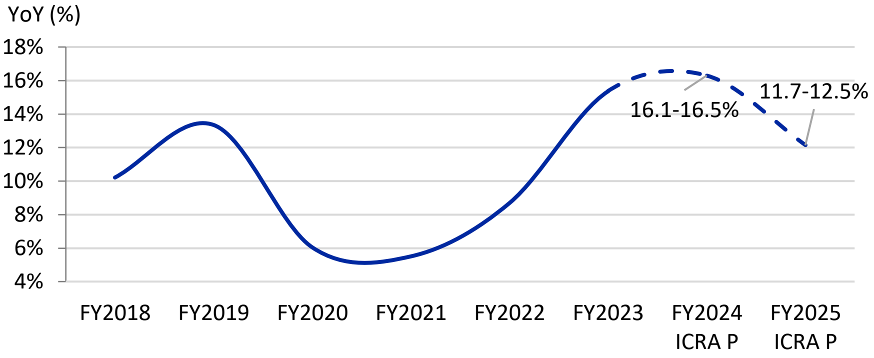
ICRA

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

- Incremental non-food bank credit expansion has been robust so far at Rs. 20.9 trillion in FY2024 (till Mar 8, 2024; excluding the impact of the HDFC-HDFC bank merger), exceeding the year-ago level of Rs. 16.8 trillion, aided by the retail and services segments. ICRA estimates incremental credit at Rs. 22.0-22.5 trillion in FY2024 (excluding the impact of the HDFC-HDFC bank merger), implying a YoY growth of 16.1%-16.5% (vs. +15.4% in FY2023); this would be the highest-ever credit expansion in any year, far outpacing the Rs. 18.2 trillion seen in FY2023.
- Subsequently, ICRA projects the incremental credit growth at Rs. 19.0-20.5 trillion in FY2025 (including the impact of the HDFC-HDFC bank merger), implying a YoY growth in outstanding credit of 11.7%-12.5%, lower than the growth expected in FY2024 amid muted export demand in certain sectors, impact of higher interest rates as well as the increase in risk weights.

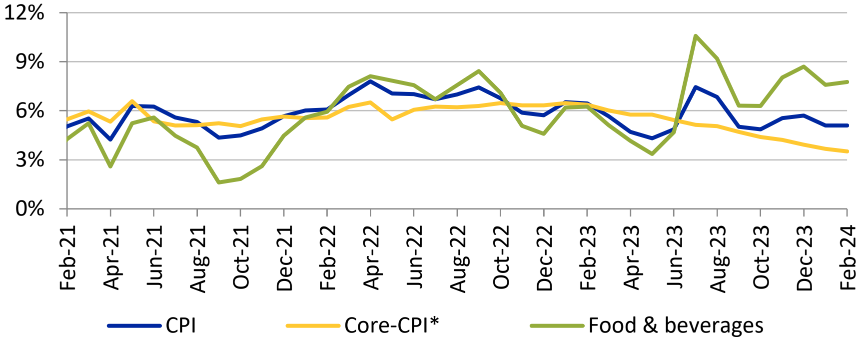

RESERVE BANK OF INDIA
GUARANTEED BY THE CENTRAL GOVERNMENT
₹200
दो सौ रुपये

INFLATION

CPI inflation to ease to 4.6% in FY2025 assuming a normal, well-distributed monsoon; WPI to revert to an inflation of 2-4% on account of low base

ICRA

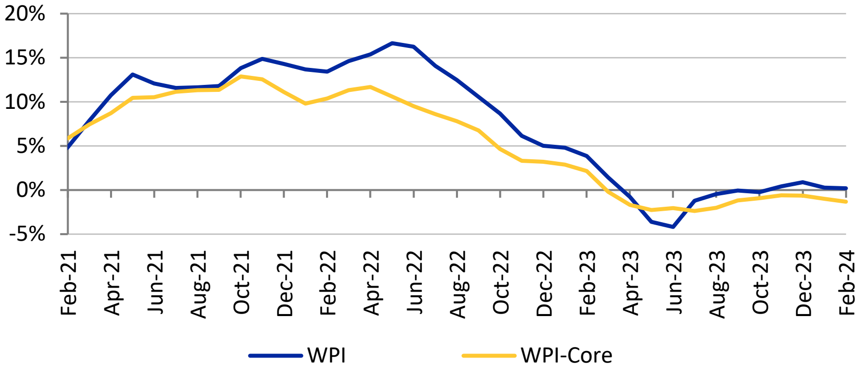
EXHIBIT: YoY trends in CPI, core-CPI and food and beverages inflation



**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*

- In line with ICRA's expectations, the headline CPI inflation stood at 5.1% on a YoY basis in Feb 2024, at par with the level seen in Jan 2024.
- **ICRA estimates the headline CPI inflation to ease to sub-5.0% in Mar 2024, led by a dip in the fuel and light (amid the cut in domestic LPG cylinder and fuel prices) as well as the food inflation prints, even though the latter is likely to remain elevated above the 7.0% mark. Overall, the CPI inflation is projected to average at 5.3% in FY2024.**
- **Thereafter, a well distributed and normal monsoon would be key to influence the outlook for food prices, which in turn would impact the trajectory of CPI inflation in FY2025. At present, ICRA projects the CPI inflation to soften to 4.6% in FY2025.**

EXHIBIT: YoY trends in WPI and core-WPI inflation

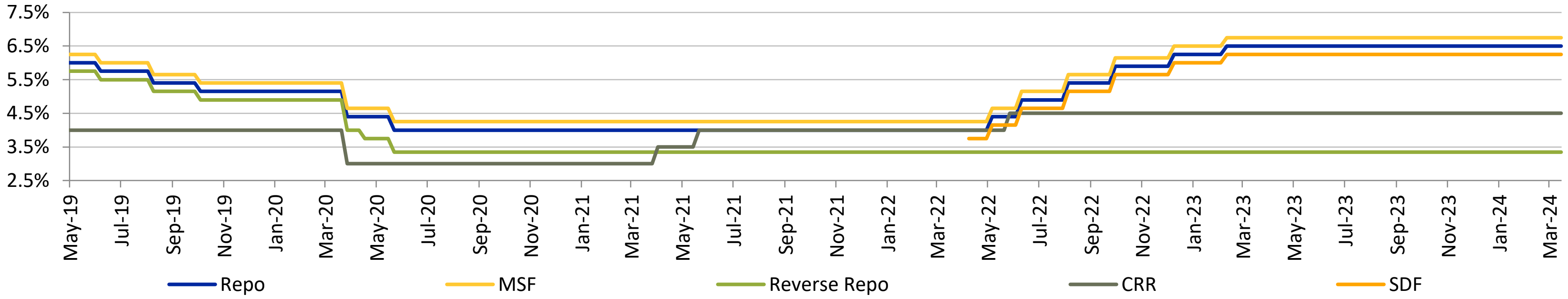


Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; ICRA Research

- The WPI inflation eased marginally to 0.2% in Feb 2024 (ICRA's exp.: +0.3%) from 0.3% in January 2024, partly led by the decline in the inflation for minerals as well as the wider YoY deflation in core-WPI and fuel and power in Feb 2024 vs. Jan 2024.
- **ICRA projects the WPI inflation to rise in Mar 2024, crossing the 1.0% mark after a gap of 11 months, amid the ongoing uptick in international prices of crude oil and other commodities, as well as an unfavourable base (+1.4% in Mar 2023).**
- **Overall, ICRA expects the WPI to witness a deflation of 0.7% in FY2024, largely on account of the high base (+9.4% in FY2023). Thereafter, it is expected to revert to an inflation of 2-4% in FY2025, assuming that global commodity prices do not display a large upswing.**

Rate cuts unlikely to begin before Q3 FY2025, amidst a shallow cycle limited to 50 bps at best

EXHIBIT: Movement in Key Rates



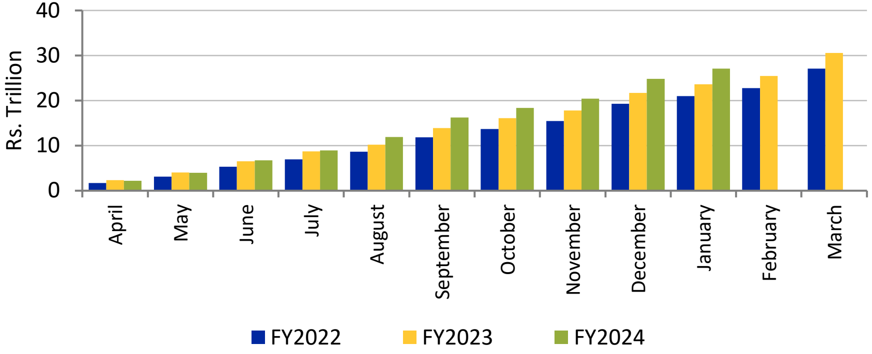
Source: RBI; ICRA Research

- The MPC had kept the policy repo rate unchanged at 6.5% in its sixth bi-monthly monetary policy meeting for FY2024, and maintained the policy stance, both with a majority of five of the six members, with the dissenting member voting for a 25 bps rate cut and a change in the policy stance to neutral.
- Subsequently, the NSO released the GDP data for Q3 FY2024, with YoY growth surging to a six-quarter high of 8.4% amid a boost in net indirect taxes (+32%), even as the GVA growth decelerated sharply to 6.5% in Q3 FY2024 from 7.7% in Q2 FY2024. The divergent trend between GDP and GVA growth in Q3 has obfuscated the assessment of the underlying growth momentum, imparting uncertainty into the timing and quantum of rate cuts.
- **The upward revision in the NSO's GDP growth estimates for Q1-Q2 FY2024, three successive quarters of 8% plus GDP expansion, and the CPI print of 5.1% for Feb 2024, suggest status quo on rates and stance in the upcoming Apr 2024 meeting. ICRA believes that the policy stance is unlikely to be changed before the Aug 2024 MPC review, until there is visibility on the monsoon turnout as well as on the sustenance of the growth momentum and the US Fed's rate decisions. Consequently, the earliest rate cut is only likely in the Oct 2024 meeting, unless growth posits a negative surprise in the intervening quarters, amid a shallow rate cut cycle limited to 50 bps at best.**

UNION GOVERNMENT FINANCES

Gross tax revenues unlikely to miss FY2024 RE; revex likely to print in line with target even as outgo for MGNREGS will overshoot RE

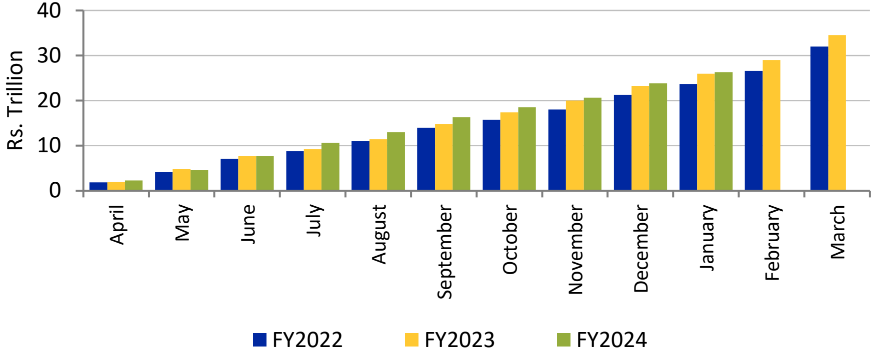
EXHIBIT: Trends in cumulative Gross Tax Revenues of GoI



Source: CGA; ICRA Research

- The GoI's gross tax revenues rose by a healthy 14.5% YoY to Rs. 27.1 trillion in Apr-Jan FY2024 (78.7% of FY2024 RE) from Rs. 23.6 trillion in Apr-Jan FY2023 (77.4% of FY2023 Actuals), boosted by direct taxes (+23.6%), followed by a relatively lower growth in indirect taxes (+3.8%).
- Thereafter, data released by the Ministry of Finance indicates that direct tax collections (net of refunds) rose by 19.9% YoY to Rs. 18.9 trillion till Mar 17, 2024.
- **Based on the FY2024 RE and 10M FY2024 trends, gross tax revenues need to record a moderate 5.7% growth in the last two months of FY2024 to meet the RE for the year, which seems achievable, with higher corporate tax collections likely to absorb lower-than-estimated indirect taxes.**

EXHIBIT: Trends in cumulative Revenue Expenditure of GoI



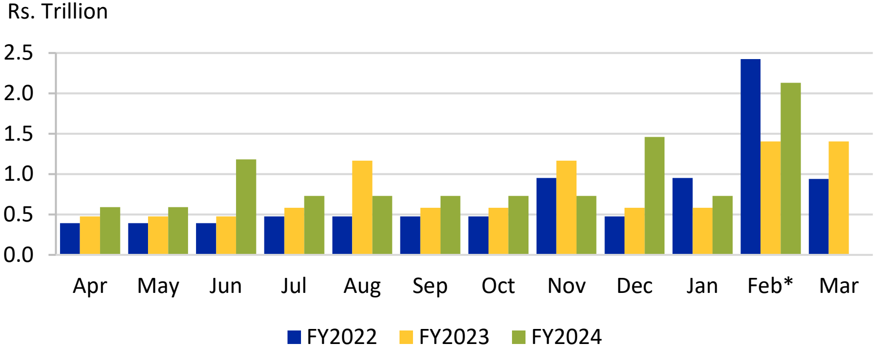
Source: CGA; ICRA Research

- The GoI's revex rose by a muted 1.4% to Rs. 26.3 trillion in Apr-Jan FY2024 (74.4% of FY2024 RE) from Rs. 26.0 trillion in Apr-Jan FY2023 (75.2% of FY2023 A), mainly led by interest payments (YoY: +11.2%), while major subsidies dipped sharply (-21.0%).
- In monthly terms, revex declined by 6.2% YoY in Jan 2024, thereby registering the fifth consecutive month of a contraction.
- **To meet the FY2024 RE, revex of Rs. 9.1 trillion is required during Feb-Mar 2024, which is 6.0% higher than the amount incurred in the year-ago period. While the outgo towards major subsidies is unlikely to exceed the FY2024 RE (Rs. 3.2 trillion), that towards Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) could overshoot the RE by Rs. 100-150 billion. However, the latter is likely to be met by expenditure savings across other ministries.**

Tax devolution to states grew by ~23% in 10M FY2024; three tranches released in Feb 2024, implying a modest Rs. 0.7 trillion left for Mar 2024

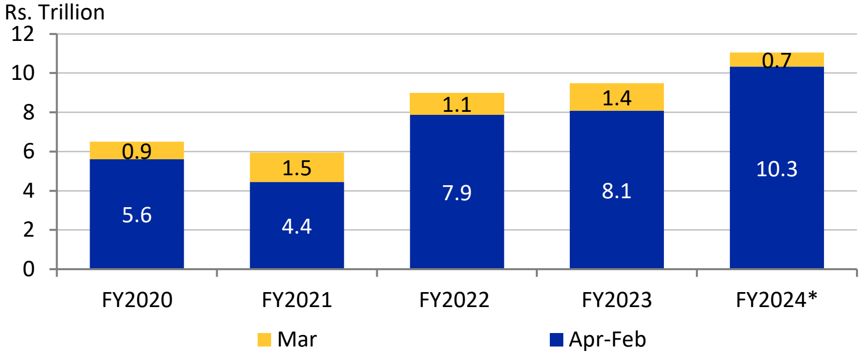
ICRA

EXHIBIT: Monthly trends in Central tax devolution



**Data for Feb 2022 includes two additional CTD instalments and additional arrears of Rs. 431.7 billion for FY1997-18 released on Feb 25, 2022; Data for Feb 2024 is based on the press release by Ministry of Finance; Source: CGA, Ministry of Finance, GoI; ICRA Research*

EXHIBIT: Apr-Feb and Mar trends in Central tax devolution



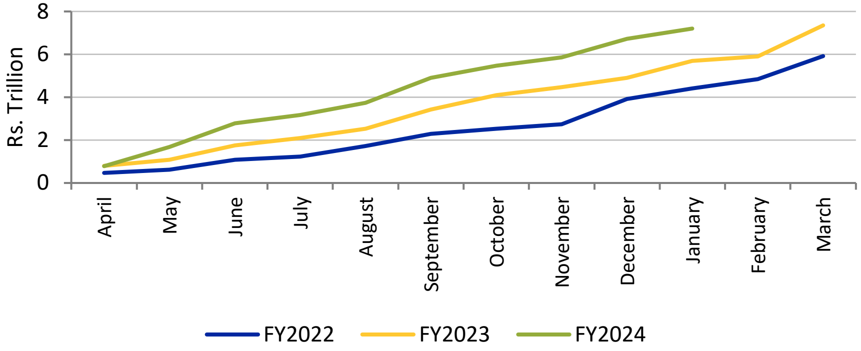
**Data for Feb 2024 is based on the press release by Ministry of Finance; Mar 2024 is calculated implicitly based on FY2024 RE and Apr-Jan FY2024; Actuals for FY2020-23; Source: CGA, Ministry of Finance, GoI; ICRA Research*

- The CTD to the states was revised upwards quite sharply by Rs. 0.8 trillion to Rs. 11.0 trillion (including adjustment for prior years of Rs. 71.5 billion) in FY2024 RE from Rs. 10.2 trillion in the BE. As per the CGA data, during 10M FY2024, the CTD to the states expanded by a sharp 22.8% to Rs. 8.2 trillion (74.3% of FY2024 RE) from Rs. 6.7 trillion in 10M FY2023 (70.4% of FY2023 actuals).
- Thereafter, the Ministry of Finance indicated in a press release that the Centre has released three instalments of tax devolution to states amounting to Rs. 2.1 trillion in Feb 2024, which may widen the GoI's fiscal deficit in that month. **This implies that Rs. 0.7 trillion is pending to be released to the states in Mar 2024, half of the Rs. 1.4 trillion released in Mar 2023.**
- After the CTD adjustment, the net tax revenues of the GoI stood at Rs. 18.9 trillion in 10M FY2024 (80.9% of FY2024 RE), 11.3% higher than the year-ago period.

Fiscal deficit target of Rs. 17.3 trillion for FY2024 unlikely to be exceeded; fiscal deficit-to-GDP ratio to be higher than RE amid downward revision in nominal GDP

ICRA

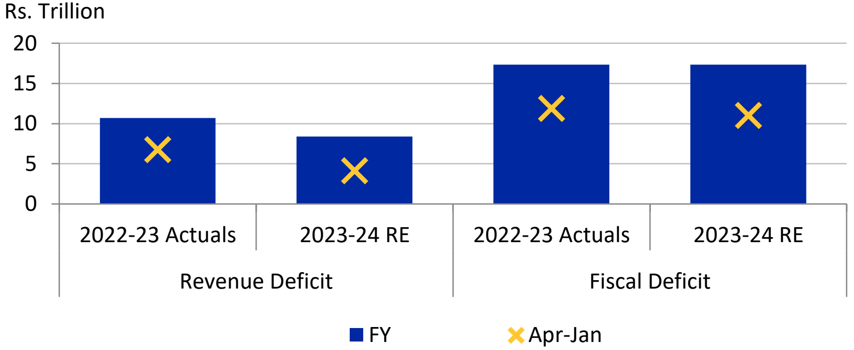
EXHIBIT: Trends in cumulative capital expenditure of the GoI



Source: CGA; ICRA Research

- The GoI's capex fell by a sharp 40.5% YoY to Rs. 0.5 trillion in Jan 2024, after rising by 24.4% in Q3 FY2024. During 10M FY2024, capex rose by a robust 26.5% YoY to Rs. 7.2 trillion (75.9% of FY2024 RE) from Rs. 5.7 trillion in 10M FY2023 (77.0% of FY2023 A).
- **This implies that capex needs to rise by a sharp 34.6% YoY during Feb-Mar 2024 and entails a required average monthly run rate of ~Rs. 1.1 trillion to achieve the revised target (Rs. 9.5 trillion) vs. the Rs. 0.7 trillion/month incurred during 10M FY2024, which appears challenging.**

EXHIBIT: Revenue deficit and fiscal deficit of the GoI



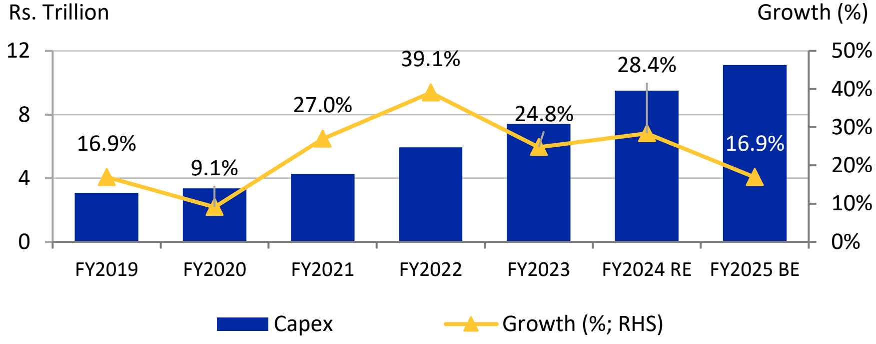
Source: CGA; ICRA Research

- The GoI's fiscal deficit stood at Rs. 11.0 trillion in 10M FY2024 (63.6% of FY2024 RE) lower than Rs. 11.9 trillion in 10M FY2023 (68.5% of FY2023 A).
- **The likely slippage in the revised target for disinvestment receipts in FY2024 and higher funds required for MGNREGS are expected to be counterbalanced by a lower-than-targeted capital expenditure, even as gross tax revenues are likely to print in line with FY2024 RE. On balance, the fiscal deficit of the GoI in FY2024 is unlikely to overshoot the RE of Rs. 17.3 trillion. However, owing to the downward revision in the nominal GDP in the FY2024 SAE (Rs. 294 trillion vs. Rs. 297 trillion in FAE), the GoI's revised target for fiscal deficit is estimated at 5.9% of GDP, marginally higher than the FY2024 RE of 5.8%.**

GoI reduced fiscal deficit to 5.1% of GDP in interim budget for FY2025; lower nominal GDP poses risk to target

ICRA

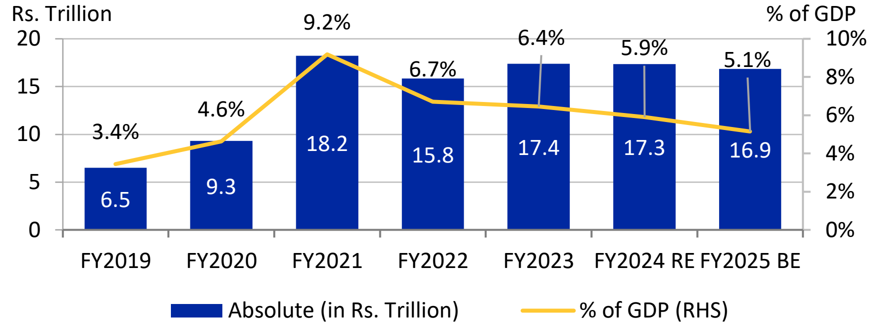
EXHIBIT: Trends in GoI's capital expenditure



Actuals for FY2019-23; BE: Budget Estimates; RE: Revised Estimates; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

- The GoI has budgeted the gross capital expenditure at Rs. 11.1 trillion in FY2025 BE, implying a sharper-than-expected growth of 16.9% from the Rs. 9.5 trillion estimated in FY2024 RE. However, this trails the expansion of over 20% seen in each of the post-Covid years.
- **ICRA believes that the pace of GoI's capex is likely to be tepid in H1 FY2025, owing to General Elections and the onset of monsoon. As a result, we are apprehensive that the GoI's on-budget capex target of Rs. 11.1 trillion could be missed in FY2025.**

EXHIBIT: GoI's Fiscal Deficit (Absolute and % of GDP)



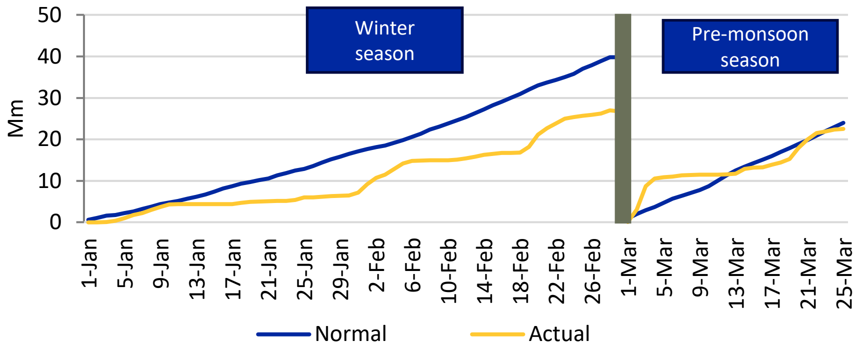
Actuals for FY2019-23; RE: Revised Estimates; BE: Budget Estimates; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

- The GoI's fiscal deficit has been budgeted to ease mildly to Rs. 16.9 trillion in FY2025 BE from Rs. 17.3 trillion in FY2024 RE, amid a modest target for disinvestment receipts and a robust ~17% expansion in capex. As a % of GDP, the fiscal deficit is estimated at 5.1%, midway through the print of 5.8% in FY2024 and the medium-term target of sub-4.5% for FY2026.
- **While the GoI's fiscal deficit target for FY2025 is unlikely to be overshot with a possible shortfall in non-tax revenues likely to be offset by a cut in capex, the target of 5.1% of GDP may be exceeded mildly on account of a lower-than-budgeted nominal GDP number.**

SECTORAL TRENDS

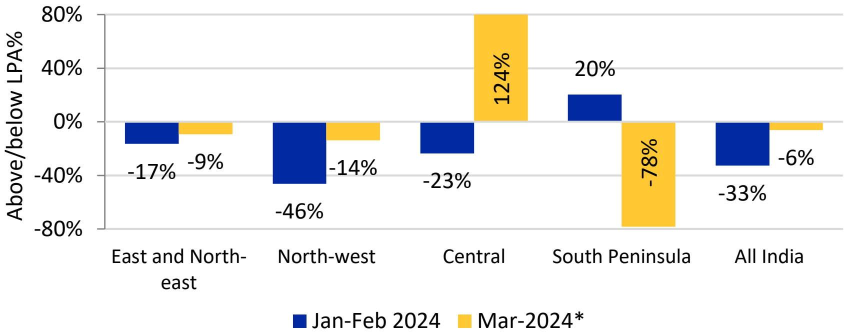
Post a deficient winter season rainfall, India has seen below-normal rains in the ongoing pre-monsoon period with significant variation across regions

EXHIBIT: Cumulative normal vs. actual rainfall



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 March 25, 2024; Source: IMD; CEIC; ICRA Research*

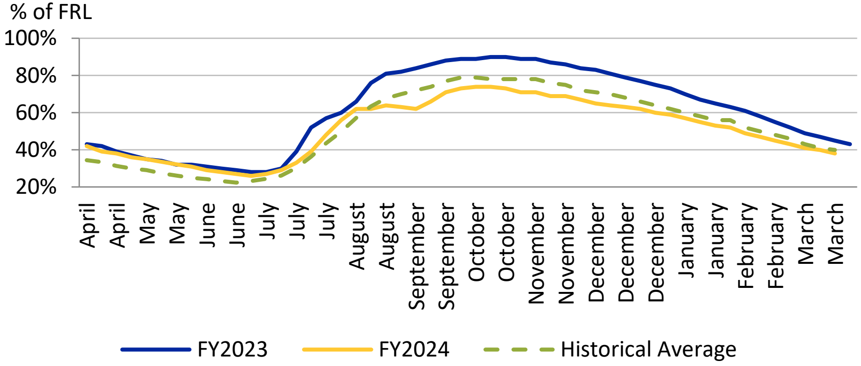
- After a large deficit of 33% in the winter season (Jan-Feb), India has witnessed below-normal rainfall at 94% of LPA up to March 25, 2024 in the ongoing summer/pre-monsoon season (March-May). This is in contrast with the India Meteorological Department's (IMD's) monthly rainfall forecast of above 117% of LPA for March 2024.
- As per the IMD, the ongoing El Nino conditions are likely to weaken in the current season and turn to neutral thereafter, which may improve prospects for the timely onset of monsoon rainfall. Additionally, it also expects the development of La Nina conditions during the monsoon season.

- In the winter season, all regions barring the South Peninsula (20% above LPA), had recorded sub-par rainfall, which contributed to the deficit of 33% at the all-India level.
- In the ongoing pre-monsoon season, the spatial distribution of rainfall has been quite varied across the four regions. While Central India has witnessed excess rains, the East and North-east region saw below-normal rainfall, followed by deficient rainfall in the North-west and South Peninsula, with the latter witnessing a significant lag of 78% by March 25, 2024.

All-India reservoir storage trails year-ago levels, although gap has reduced in recent weeks

ICRA

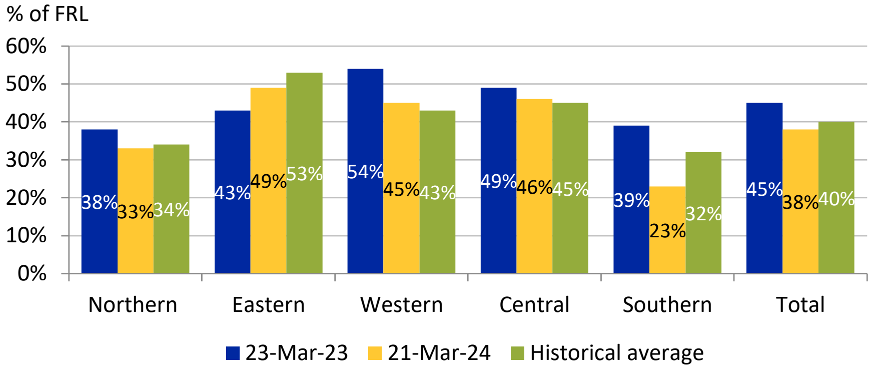
EXHIBIT: Reservoir storage levels as percentage of Live Capacity at Full Reservoir Level (FRL)



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

- The all-India reservoir storage has continuously trailed the year-ago levels as well as the historical average since mid-July 2023, owing to sub-par rainfall across the monsoon, post-monsoon and winter seasons, led by the prevailing El Nino conditions.
- It stood at 38% of the live capacity at FRL as on Mar 21, 2024, sharply lower than the year-ago level (45% of FRL), while only mildly below the historical levels (40% of FRL over past 10 years). The gap with the year ago and historical levels has narrowed considerably over the last three weeks.

EXHIBIT: Region-wise reservoir storage levels



Source: CWC; CEIC; ICRA Research

- Barring the eastern region (49% vs. 43%), the reservoir storage in all other regions has trailed the year-ago levels as on March 21, 2024.
- While the water storage in the western and central regions as on March 21, 2024 is higher than the historical levels of the past decade, that in the southern, eastern and northern regions trails the same by 9 pp, 4 pp and 1 pp, respectively.

Barring wheat, rabi output of all other crops estimated to moderate in 2023-24; summer sowing up by 7.6% by mid-March 2024 despite sub-par rains

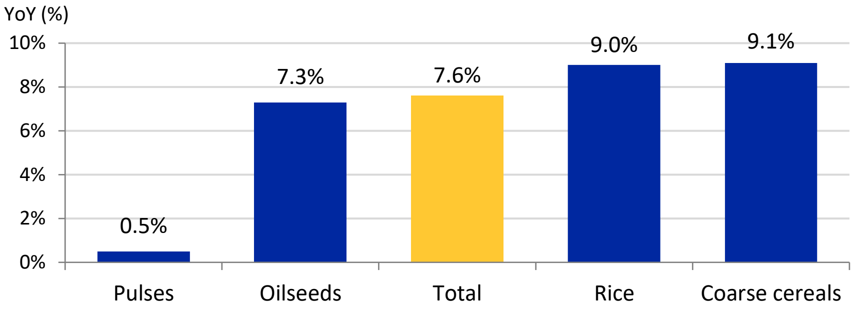
ICRA

EXHIBIT: Production and yield of rabi crops in 2nd AE for 2023-24

	Rabi Production			Rabi Yield
In million tonne	Final Estimate 2022-23 (A)	2nd AE 2023-24 (B)	Growth (%; B/A)	Growth in 2023-24 over 2022-23 (%)
Wheat	110.6	112.0	1.3%	0.1%
Rice	15.0	12.4	-17.6%	-7.1%
Coarse Cereals	15.9	14.5	-9.2%	-7.0%
Pulses	16.4	16.3	-0.2%	1.1%
Oilseeds	14.2	13.8	-2.8%	2.8%

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

EXHIBIT: Area coverage under Summer/Zaid crops as of March 15, 2024



Zaid crop is grown before kharif sowing season and after harvesting of rabi crops; Source: Ministry of Agriculture and Farmers' Welfare; CEIC; ICRA Research

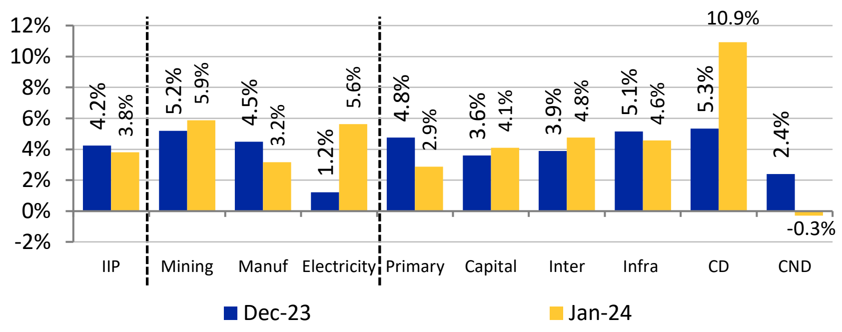
- As per the second advance estimates (SAE) released by the Agriculture Ministry for 2023-24, the output of most rabi crops, barring wheat (+1.3%; record), is anticipated to ease, compared to final estimates of 2022-23, albeit in a wide range of 0.2% for pulses to as much as 17.6% for rice.
- The sobering decline in the rabi output for rice and coarse cereals can be partly attributed to a sharp dip in their yields, amid the persistent El Nino conditions.

- Despite below normal rainfall in the ongoing pre-monsoon season and a YoY lag in reservoir levels, the area covered under summer crops has risen by 7.6% in YoY terms to 3.94 million hectare (mn ha) as on March 15, 2024.
- Crops like rice and coarse cereals have witnessed higher acreage compared to year-ago levels, with a healthy expansion of 9.0% and 9.1%, respectively. This is followed by a robust 7.3% increase in the sowing of oilseeds by mid-March 2024, whereas the area sown for summer pulses has risen by just 0.5% YoY, dampened by moong dal (-0.6%).

YoY growth in IIP and core sector decelerated in Jan 2024; high frequency data suggests growth in former to be limited to 4-5% in Feb 2024 amid adverse base

ICRA

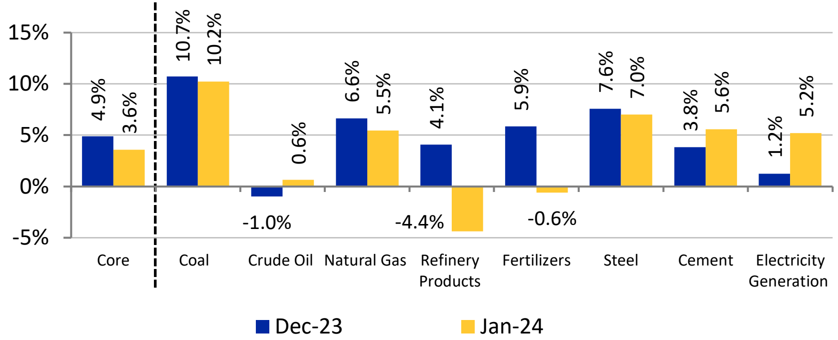
EXHIBIT: YoY Trend in performance of IIP and its sub-components



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

- The IIP growth eased marginally to 3.8% in Jan 2024 from 4.2% in Dec 2023, marking a sub-5% growth for the third consecutive month. Compared to Dec 2023, the growth in manufacturing output slowed down in Jan 2024, while that in mining output and electricity generation saw an acceleration to ~6% each.
- Among the use-based categories, primary, infra and consumer non-durables goods saw weaker performance in Jan 2024, compared to the prior month.
- **While majority of high frequency data showed a YoY uptick in Feb 2024 relative to Jan 2024, such as non-oil exports, auto output, etc., an adverse base is expected to curtail the IIP growth to ~4.0-5.0% in Feb 2024**.

EXHIBIT: YoY Trend in performance of core sectors

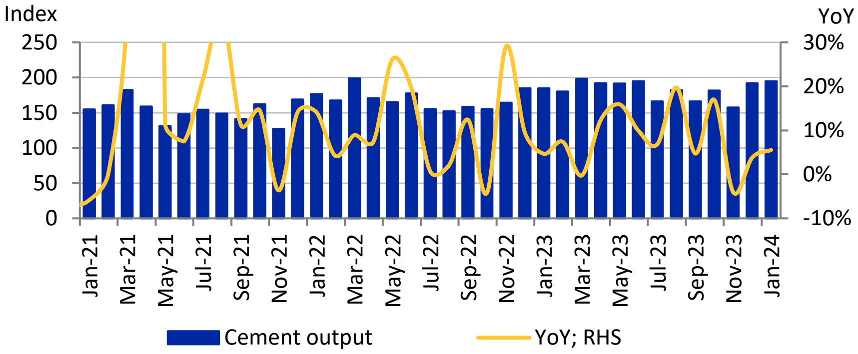


Source: Index of Eight Core Industries, Office of Economic Adviser, Ministry of Commerce and Industry, CEIC; ICRA Research

- Similarly, the YoY growth in the output of the core sector also deteriorated, albeit relatively sharply to 3.6% in Jan 2024 from 4.9% in Dec 2023. This was driven by five of the eight sectors, namely, refinery products, fertilisers, natural gas, coal and steel, with the former two slipping into a YoY decline after a gap of eight and 22 months, respectively.
- The YoY growth in IIP outpaced that in core sector output (with a weight of 40.3% in the IIP) after a gap of seven months in Jan 2024, although the difference between the two was quite muted at 20 bps.

Cement volumes to rise by 8-9% in FY2025 amid improvement in profitability; steel consumption to grow 7-8%, although margins may ease by 110-115 bps

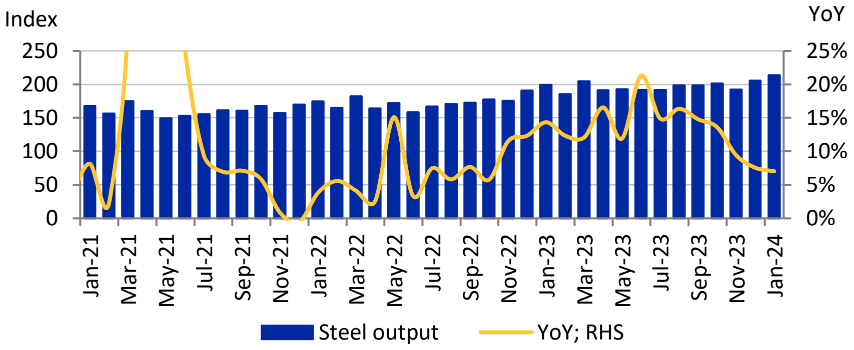
EXHIBIT: Trends in cement output



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

- Cement output rose by a healthy 9.0% YoY during Apr-Jan FY2024, supported by demand from the infrastructure and urban housing segments. In monthly terms, the YoY performance has improved in the recent months, from a decline of 4.0% in Nov 2023, to a 3.8% growth in Dec 2023 and a 5.6% rise thereafter in Jan 2024.
- **After an expected growth of 9-10% in FY2024, cement volumes are projected to increase by 8-9% to 460-465 MT in FY2025. With softening of cost-side pressures, operating margins of the industry are likely to improve by 290-340 bps in FY2024, and further by 80-100 bps in FY2025.**

EXHIBIT: Trends in steel output



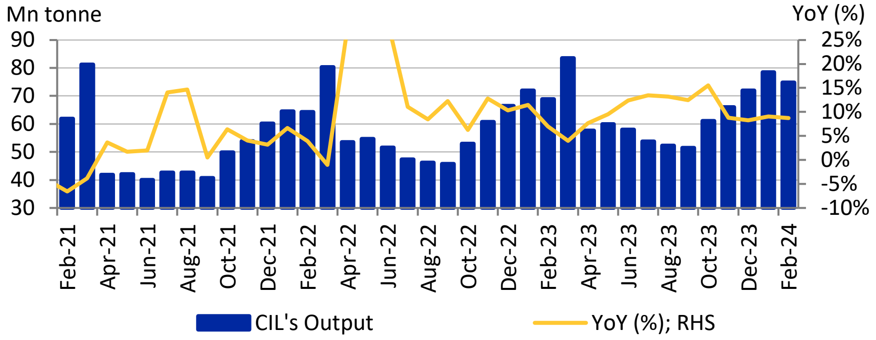
Source: Office of the Economic Adviser, GoI; ICRA Research

- Steel output increased by an impressive 13.0% YoY in Apr-Jan FY2024, with demand stemming from the rise in GoI's capex and construction activity. However, the growth decelerated to single digits in Nov-Jan FY2024, mirrored by the slowdown in consumption growth during Dec-Jan FY2024 (+6.5%).
- **ICRA expects domestic steel consumption to grow by 7-8% in FY2025 (12.8% in FY2024E). However, the industry's margins are likely to ease by 110-115 bps in the fiscal, amid softness in steel prices, temporary deceleration in domestic demand during General Elections, high input costs and weak external environment.**

CIL's output and electricity generation growth remained healthy in Apr-Feb FY2024; latter estimated to increase by 5.5-6.0% YoY in FY2025

ICRA

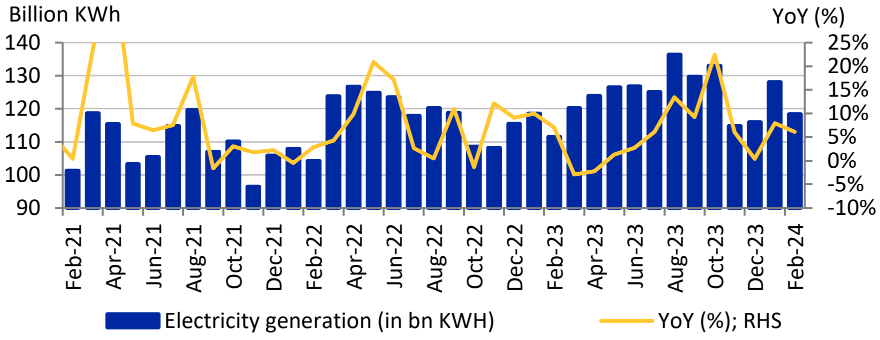
EXHIBIT: Trends in CIL's output



Source: CIL; ICRA Research

- Similar to the trend in FY2023, CIL has sustained the healthy momentum in the ongoing fiscal, with its output growing by 10.5% YoY to 685.1 MT (~88% of the full-year target of 780 MT) in Apr-Feb FY2024.
- In monthly terms, the growth eased slightly to 8.7% in Feb 2024 from 9.1% in Jan 2024, while remaining quite robust.
- **To meet the target of 780 MT in FY2024 set for CIL (~11% over FY2023), its output needs to grow by 13.7% YoY in Mar 2024 on a high base. ICRA anticipates a mild miss relative to this target.**

EXHIBIT: Trends in electricity generation

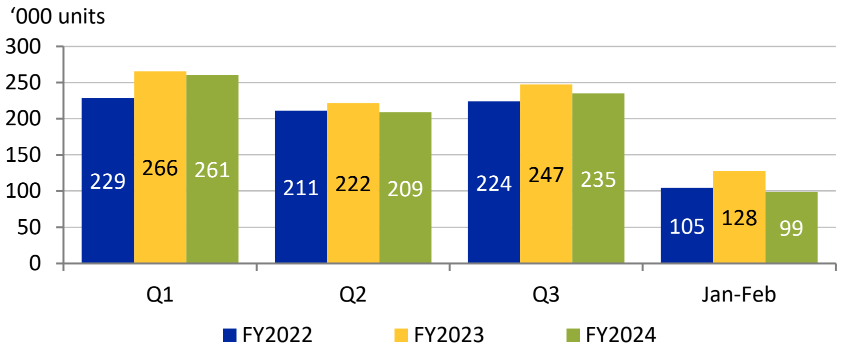


Electricity generation includes thermal, hydro, and nuclear energy; Source: CEA; ICRA Research

- Electricity generation (thermal, hydro, nuclear and renewable) rose by 7.0% YoY in Apr-Jan FY2024, led by the thermal and renewable sources with a growth of 10% each during this period.
- In Feb 2024, the YoY expansion in electricity generation (barring renewables) dipped to 6.1% from 7.9% in Jan 2024, which is at odds with the uptick in demand growth between these months (to +6.9% from +6.1%, as per POSOCO).
- In FY2024, electricity demand rose by 7.2% YoY till Mar 25, 2024. **Going ahead, ICRA estimates electricity demand to grow by 5.5-6.0% in FY2025.**

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

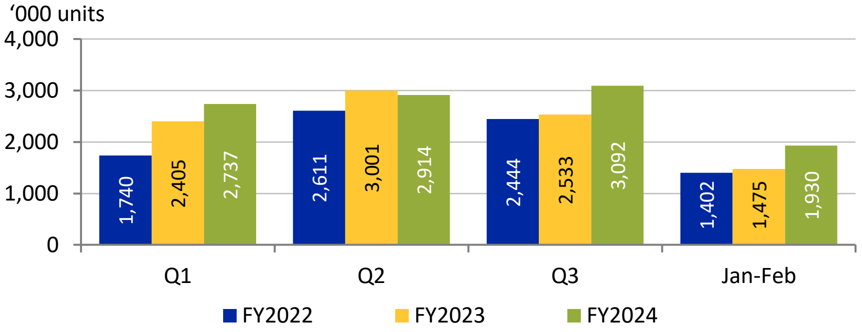
EXHIBIT: Trends in domestic tractor wholesale volumes



Source: CMIE; ICRA Research

- Domestic tractor wholesale volumes trailed the year-ago levels in each of the first three quarters of FY2024 amid unfavourable rainfall and a decline in output across several crops. Thereafter, in Jan-Feb 2024, the volumes were 22.8% lower on a YoY basis, partly dampened by a high base (+22.2% in Jan-Feb 2023). Overall, the YoY decline stood at 6.8% in Apr-Feb FY2024.
- **During FY2024, domestic tractor volumes are expected to decline by 3-5% YoY on a high base. Thereafter, volumes are estimated to witness a muted growth of 1-4% YoY in FY2025, aided by early indications of a normal monsoon.**

EXHIBIT: Trends in domestic motorcycle wholesale volumes



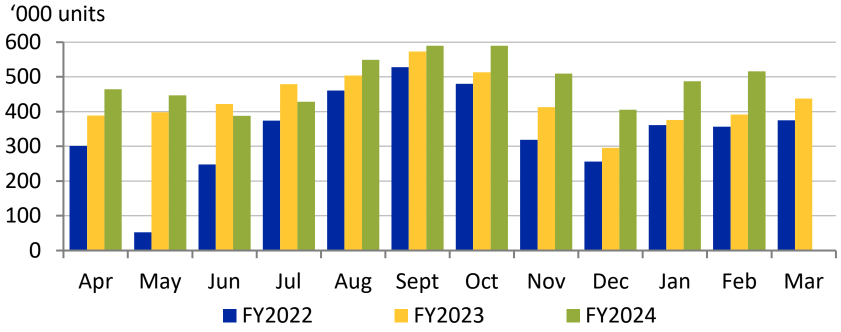
Source: CMIE; ICRA Research

- After an expansion of 22.1% in Q3 FY2024 owing to inventory build-up for the festive and marriage season, motorcycle wholesale dispatches increased by a sharper 30.9% YoY in Jan-Feb FY2024. This was partly supported by a low base and steady improvement in demand. Overall, volumes grew by 13.3% YoY during Apr-Feb FY2024.
- **Notwithstanding the robust growth in volumes, concerns around a sustained recovery in rural demand persist, amid the material rise in ownership costs. ICRA expects the domestic motorcycle volumes to grow by 7-10% YoY in FY2025 (8-11% in FY2024 E).**

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

ICRA

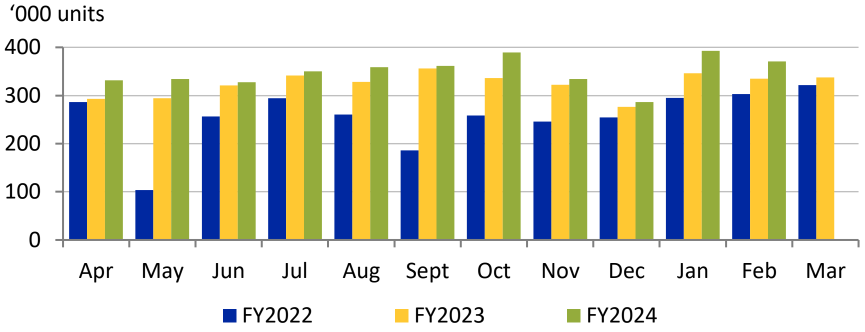
EXHIBIT: Trends in domestic scooter wholesale volumes



Source: CMIE; ICRA Research

- The YoY growth in scooter volumes improved to 30.7% in Jan-Feb 2024 from 23.1% in Q3 FY2024, benefitting from a favourable base effect. Overall, the growth was moderate at 13.0% in 11M FY2024.
- **ICRA is cautiously optimistic of 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 (8-11% in FY2024 E).**

EXHIBIT: Trends in domestic PV wholesale volumes

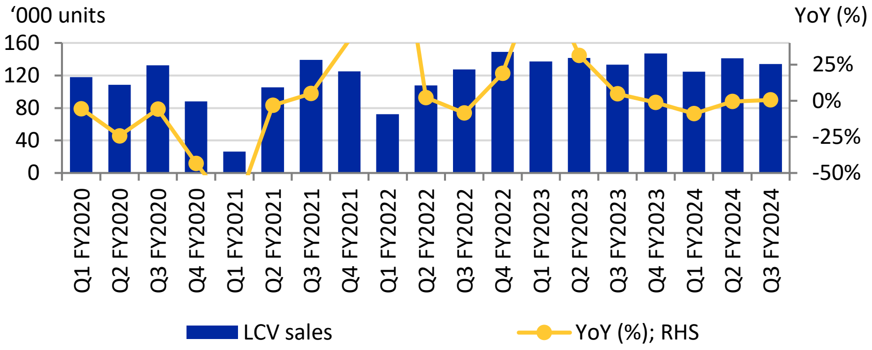


**Including Tata Motors Limited (TML) volumes; Source: CMIE; ICRA Research*

- Domestic PV wholesale volumes have recorded a YoY growth of 8.1% in Apr-Feb FY2024, 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.
- **ICRA expects growth in the PV domestic volumes to ease to 3-6% in FY2025 from 6-9% in FY2024, on account of an elevated base and waning pent-up replacement demand. High inventory for select models, elevated cost of ownership and semiconductor/electronic parts shortage remain monitorable.**

Domestic CV industry's sharp upcycle to plateau in FY2025, with a marginal decline of 4-7% in volumes

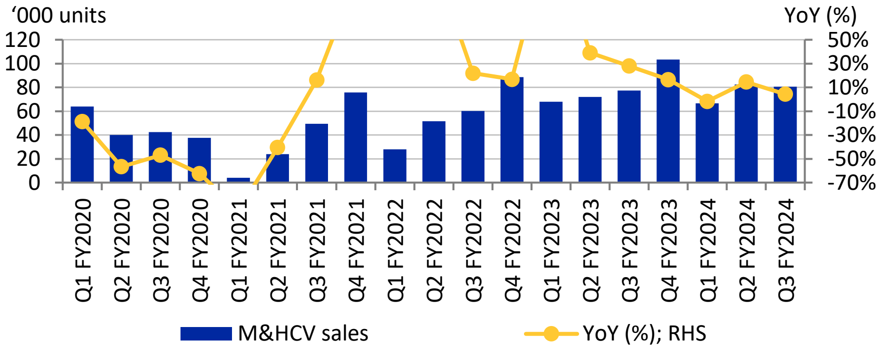
EXHIBIT: Trends in domestic LCV wholesale volumes (truck)



Source: CMIE; ICRA Research

- The light commercial vehicle (LCVs: truck segment) segment reported flattish wholesale dispatches in Q3 FY2024 (+0.6% YoY), primarily owing to the high base effect and slowdown in e-commerce demand along with some cannibalisation by electric three-wheelers.
- Such volumes reported a contraction of 3.0% during 9M FY2024 and are expected to decline by 1-4% in FY2024. **ICRA expects the domestic LCV industry's volumes to show a sharper decline of 5-8% in FY2025, partly on account of a high base.**

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



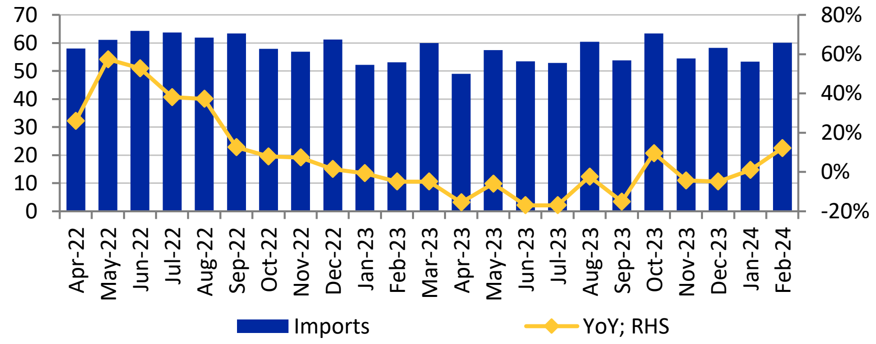
Source: CMIE; ICRA Research

- The wholesale volumes of medium and heavy commercial vehicles (M&HCV: truck segment) increased by 4.3% YoY in Q3 FY2024, supported by replacement demand and a healthy traction from mining, infra and construction activities, closing 9M FY2024 with a 6.0% YoY growth. ICRA expects volume growth of 3-6% in FY2024, as Q4 is likely to witness a muted growth given the high base.
- **ICRA expects the domestic M&HCV volumes to decline by 4-7% in FY2025, led by an unfavourble base effect and the likely slowdown in the GoI's capex in the first few months of the fiscal amid the onset of the General Elections.**

Merchandise imports projected to grow by 4-5% in FY2025 as against 2-3% growth forecast for such exports

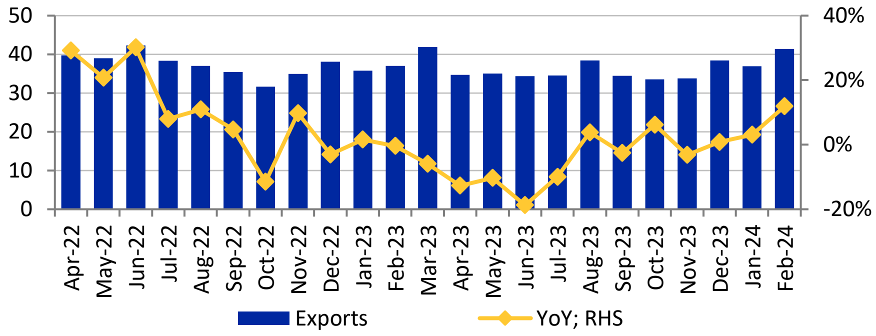
ICRA

EXHIBIT: Trends in merchandise imports ($ billion)



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

EXHIBIT: Trends in merchandise exports ($ billion)



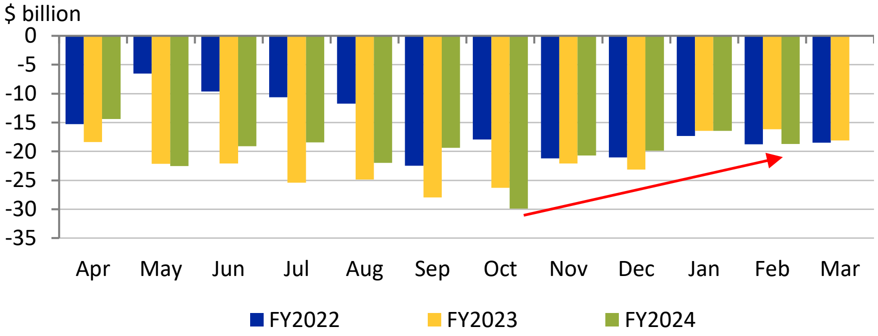
Source: Ministry of Commerce and Industry, GoI; ICRA Research

- Merchandise imports rose by 6.6% YoY to $113.5 billion in Jan-Feb FY2024, after growing by just 0.1% in Q3 FY2024. This was led by a more-than-doubling of gold imports (to $8.1 billion from $3.3 billion) owing to strong demand during marriage season, followed by a shallower 3.8% rise in non-oil non-gold segment, even as oil imports eased by 1.0% YoY in Jan-Feb FY2024 (amid 1.4% fall in crude oil prices).
- **At present, ICRA has pencilled in a 4.0-5.0% growth in merchandise imports in FY2025 (-4.0% expected in FY2024).**

- India's merchandise exports expanded by 7.5% YoY to $78.3 billion in Jan-Feb FY2024 (+1.0% in Q3 FY2024), owing to an unexpected surge in Feb 2024 (+11.9%). Non-oil exports increased by a slightly sharper 8.0% in Jan-Feb FY2024, compared to the 5.7% growth seen in the petroleum exports.
- **ICRA expects merchandise exports to rise by 2-3% in FY2025 (-3.0% expected in FY2024), amid a subdued growth in H1 FY2025. Export growth is likely to improve in H2, after monetary easing begins in major economies, which would lead to some recovery in demand and uptick in commodity prices.**

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

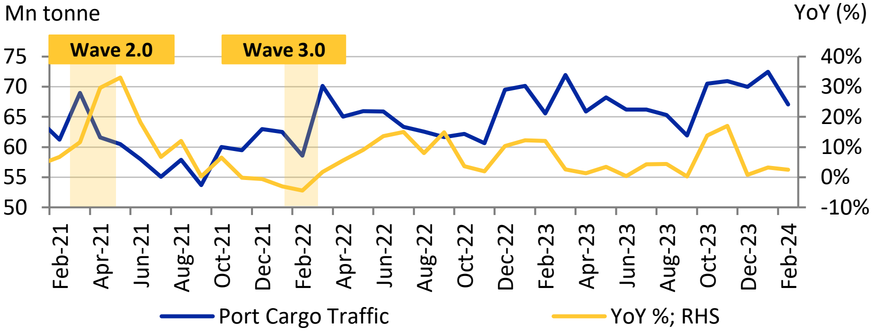
EXHIBIT: Trends in merchandise trade deficit ($ billion)



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

- Merchandise exports have risen to $39.1 billion/month, on an average, in Jan-Feb FY2024 from $35.2 billion/month in Q3 FY2024, which stood in contrast with the moderation in merchandise imports between these periods (to $56.7 billion/month from $58.7 billion/month). This resulted in an appreciable reduction in the average monthly trade deficit to $17.6 billion in Jan-Feb FY2024 from $23.5 billion in Q3 FY2024, mainly stemming from non-oil items.
- **Owing to the expectations of a relatively sharper uptick in merchandise imports vis-à-vis such exports, the merchandise trade deficit is estimated to widen slightly to $273-275 billion in FY2025 from $252-254 billion expected for FY2024.**

EXHIBIT: Trends in cargo traffic at major ports

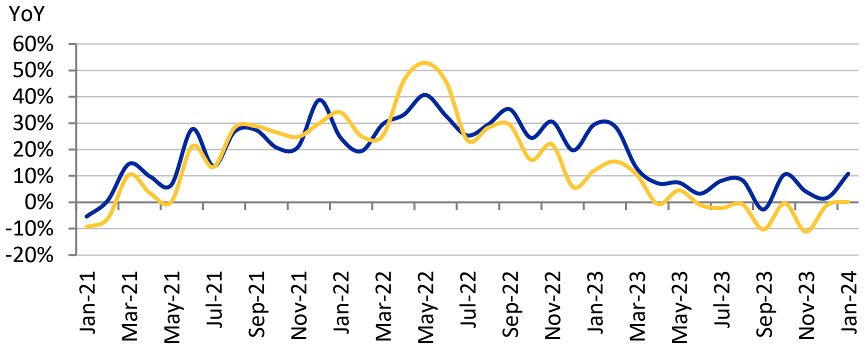


Source: Indian Ports Association (IPA); ICRA Research

- The growth in cargo traffic at major ports has been muted during Dec-Feb FY2024 in the range of 0.7-3.2%, partly dampened by a high base. Notably, cargo traffic in Jan 2024 touched a record high of 72.5 MT, amid strong YoY growth in iron ore, thermal coal and POL shipments, although container volumes were likely impacted owing to the Red Sea crisis.
- Overall, cargo handled at major ports grew by 4.5% YoY in Apr-Feb FY2024, while that at minor ports saw a stronger 10.7% rise during this period. **ICRA projects port cargo traffic (major + minor ports) to grow by 7-8% in FY2024, driven by the container and coal segments. In FY2025, we expect such traffic to grow by 6-8%, although global growth slowdown and geopolitical tensions pose risks.**

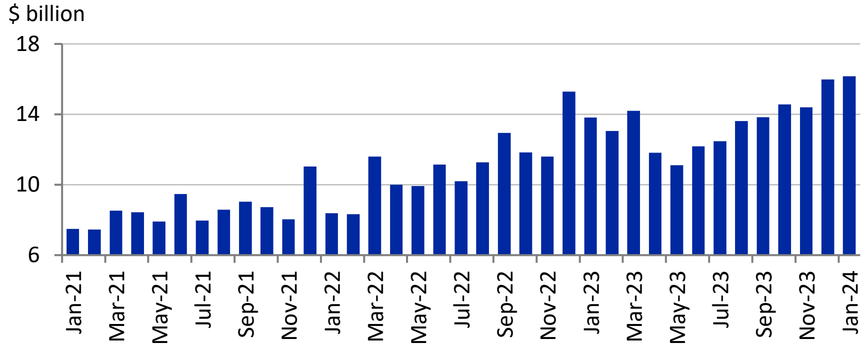
Services trade surplus at all-time high in Jan 2024; expected to rise further to $176-178 billion in FY2025 from $164-166 billion in FY2024

EXHIBIT: Trends in Services exports and imports



Source: RBI; ICRA Research

EXHIBIT: Trends in Services Trade balance



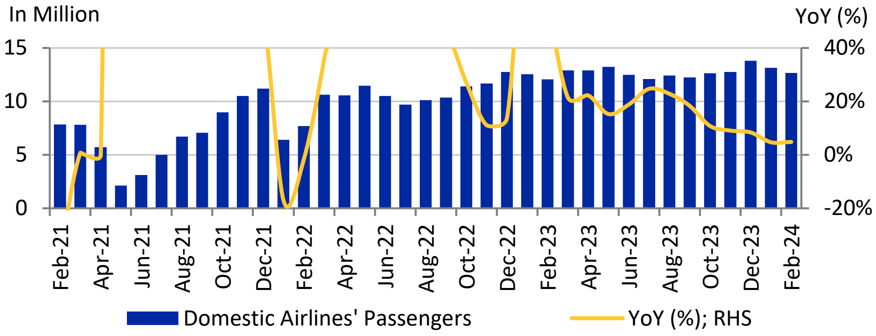
Source: RBI; ICRA Research

- India's services exports expanded by a robust 10.8% YoY to $31.0 billion in Jan 2024, while the growth in such imports was meagre at 0.2%, resulting in trade surplus surging to a record-high of $16.2 billion in the month. This is much higher than the monthly average surplus of $15.0 billion recorded in Q3 FY2024, and has nearly offset the merchandise trade deficit ($16.5 billion) in Jan 2024.
- During Apr-Jan FY2024, services exports have risen by 5.7% YoY to $282.7 billion, while such imports have contracted by 2.4% to $146.5 billion. Consequently, the services trade surplus has surged by 16.0% YoY to $136.2 billion during Apr-Jan FY2024 from $117.4 billion in the corresponding period of FY2023.
- **Looking ahead, exports of IT services may remain tepid in FY2025, amid expectations of a muted 3-5% growth in the revenues of ICRA's sample set of companies, in line with FY2024, stemming from persistent uncertainty in key markets which is expected to result in pauses or deferral of non-critical projects and slowdown of discretionary IT spends by key sectors like retail, BFSI, technology and communication. However, the export performance of non-IT services (including Global Capability Centres) may remain healthy in FY2025, as has been the case in the ongoing fiscal. ICRA estimates the services trade surplus to rise to $176-178 billion in FY2025 from $164-166 billion expected in FY2024.**

Domestic air passenger traffic to grow at 8-13% in FY2025; rail freight rose by ~5% in 11M FY2024, supported by coal and iron ore volumes

ICRA

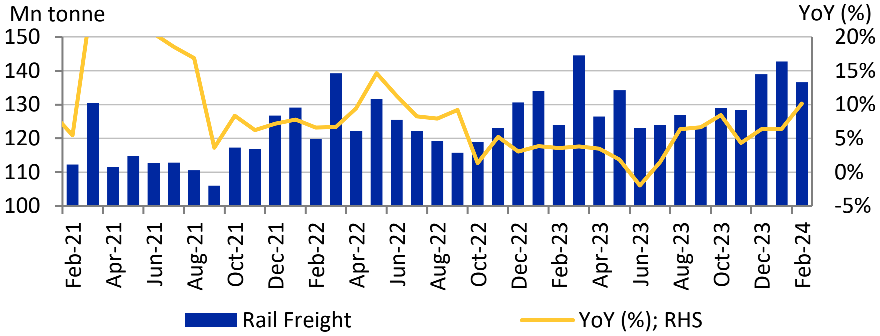
EXHIBIT: Trends in domestic airlines' passenger traffic



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

- Domestic airlines' passenger traffic witnessed a strong YoY growth of 13.9% to 140.3 million in Apr-Feb FY2024 (while also exceeding pre-Covid levels by ~5%), boosted by a healthy demand for leisure and business travel. While the traffic eased sequentially in Feb 2024, it grew by 4.8% on a YoY basis, and was 2.3% higher over the Feb 2020 level.
- **ICRA estimates the domestic [air passenger traffic](#) to rise by 8-13% to 165-170 million in FY2025, similar to the growth likely in FY2024 (with traffic expected to touch 150-155 million in FY2024, while surpassing the pre-Covid levels).**

EXHIBIT: Trends in rail freight traffic

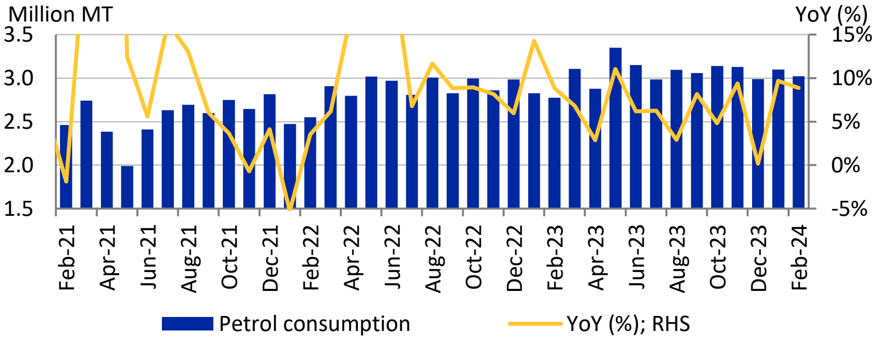


Source: Indian Railways, GoI; ICRA Research

- Rail freight volumes eased by ~4% on a sequential basis in Feb 2024, while posting a 20-month high growth of 10.1% YoY mainly attributed to the low base of last year.
- After posting a record-high annual freight of 1,512 MT in FY2023 (averaging at 126 MT/month), such volumes averaged at 130 MT per month during Apr-Feb FY2024, representing a YoY growth of 4.9%, supported by higher iron ore (+13.7%) and coal (+6.4%; to support the power sector output) shipments during this period.

Petrol consumption rose by 6.4% in 11M FY2024, higher than 4.5% growth in diesel sales; RSP cut of Rs. 2.0/ltr each in Mar 2024 to support consumption

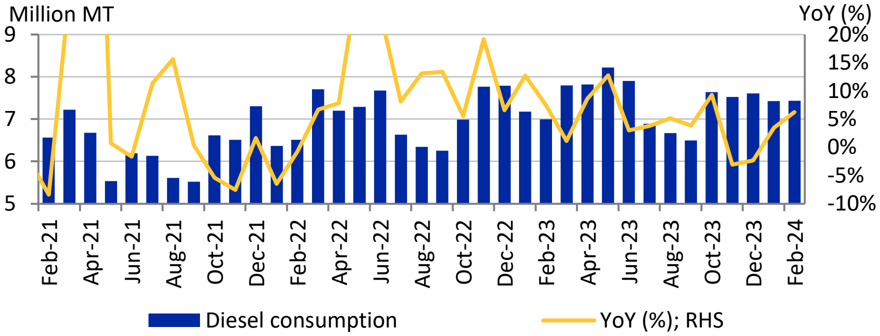
EXHIBIT: Trends in petrol consumption



Source: PPAC; ICRA Research

- The YoY growth in petrol consumption has displayed a volatile trend in the recent months, rising from just 0.2% in Dec 2023 to 9.7% in Jan 2024, before easing to 8.9% thereafter in Feb 2024.
- Nevertheless, such volumes largely remained stable at 3.0-3.1 MT during July-Feb FY2024, higher than the monthly average of 2.9 MT seen in FY2023.
- Cumulatively, petrol consumption increased by 6.4% YoY in Apr-Feb FY2024, suggesting a healthy momentum in mobility amid stable retail prices. In Mar 2024, the GoI reduced the excise duty on petrol by Rs. 2.0/litre which is likely to augur favourably for petrol consumption.

EXHIBIT: Trends in diesel consumption



Source: PPAC, ICRA Research

- Following the decline of 2-3% in Nov-Dec 2023 on a high base, diesel consumption reverted to a YoY growth of 3.4% in Jan 2024, which improved further to 6.3% in Feb 2024.
- In absolute terms, average diesel volumes have risen to 7.5 MT/month during Oct-Feb FY2024 from 6.7 MT/month seen during Jul-Sep 2023 (dampened by the monsoon period). Overall, the volume growth stood at 4.5% in Apr-Feb FY2024, lower than the petrol sales growth seen during this period.

Click to Provide Feedback

ICRA Analytical Contact Details

Name	Designation	Email	Contact Number
Aditi Nayar	Chief Economist, and Head-Research and Outreach	aditin@icraindia.com	0124- 4545 385
Rahul Agrawal	Senior Economist	rahul.agrawal@icraindia.com	022 – 6114 3425
Aarzoo Pahwa	Economist	aarzoo.pahwa@icraindia.com	0124 – 4545 835
Tiasha Chakraborty	Senior Associate Economist	tiasha.chakraborty@icraindia.com	0124- 4545 848
Isha Sinha	Associate Economist	isha.sinha@icraindia.com	022 – 6114 3445

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development - Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development - Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vipin Saboo	Head Business Development – Corporate Sector - West & East	vipin.saboo@icraindia.com	022-61693348
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Media & Communications	communications@icraindia.com	0124-4545860

ICRA

ICRA

Thank You!