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Investment Tracker

Prospects for investment activity revitalised in FY2027, with double digit hike in public capex target, reduction in US tariffs

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Agenda

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1 Trends in High Frequency Indicators for Investments

2 Trends in Order Books and Capacity Utilisation

3 Trends in Government, Corporate and Household Investments

4 Annexure

Highlights – I

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The YoY performance of seven of the 11 investment-related indicators improved in Q3 FY2026 vis-à-vis Q2.

Home sales volumes recorded a YoY contraction of 5.4% in Q3 FY2026, after expanding in Q2; ICRA expects it to decline by 0-3% in FY2026, before rising by 1-4% in FY2027.

As many as seven of the 11 investment-related indicators witnessed an improvement in their year-on-year (YoY) performance in Q3 FY2026 vis-à-vis Q2. While new project announcements remained buoyant in Q3 FY2026, led by the private sector, project completions slowed sequentially to a 4-quarter low of Rs. 1.8 trillion in the quarter. As we look forward to the next financial year, the prospects for growth appear bright with the Government of India's (GoI's) capital expenditure budgeted to grow by 11.5% YoY to Rs. 12.2 trillion over the FY2026 revised estimate (RE), amid a 40% incremental uptick in the 50Y interest free capital assistance to states. Including grants in aid for creation of capital assets and internal extra budgetary resources of CPSEs, the combined capex has been budgeted to grow by 19.6% to Rs. 22 trillion in FY2027, which would bolster GDP expansion in the fiscal. Besides, the recent reduction in the US tariffs (to 18% from 50%) and the free trade agreement with the EU, would likely provide competitive advantage to Indian exporters, and are likely to encourage private capex, which has remained quite uneven so far.

- **Investment-related indicators saw mixed performance in Q3 FY2026**: The YoY performance of seven of the 11 investment-related indicators improved in Q3 FY2026 vs. Q2; this subset includes the output of capital goods (led by machinery and equipment, commercial vehicles) and cement, infrastructure credit, M&HCV registrations (aided by GST rate cuts), engineering goods imports, states' capital outlay and net lending, and stamp duty collections. In contrast, the YoY performance of infrastructure/construction goods output (albeit remaining in double digits), finished steel consumption, engineering goods' exports (partly on a high base), and GoI's capex (after frontloading in H1) deteriorated in Q3 FY2026 vis-à-vis Q2.
- **Home sales fell by ~5% YoY in Q3 FY2026**: The area sold in the top seven cities declined by 5.4% YoY to 153.9 msf in Q3 FY2026, while trailing the Q2 FY2026 level by 1.0%, amid lower launches. ICRA expects the area sold in the top seven cities in India to contract by 0-3% on a YoY basis to 620-640 msf in FY2026. Subsequently, it is expected to rise mildly by 1-4% to 645-655 msf in FY2027, with stabilisation of sales velocity. Additionally, the GST rate cuts on key inputs, income tax relief, and 125 bps reduction in the policy repo rate are expected to aid the sector. Besides, continued focus on the Pradhan Mantri Awas Yojana (PMAY)-Urban in the Union Budget FY2027 is likely to support demand for affordable housing in the urban real estate segment.

Highlights - II

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Project announcements rose to Rs. 11.2 trillion in Q3 FY2026 from Rs. 9.3 trillion in Q2, driven by the private sector.

The GoI's capex target was pared by Rs. 0.3 trillion for FY2026; thereafter, it is budgeted to grow by a healthy 11.5% to Rs. 12.2 trillion in FY2027.

Around 40% of increase in FY2027 capex target is coming from allocation for 50Y interest free capital assistance to states.

The strong expansion in public capex in FY2027, along with trade deals with the EU and the US, augur well for investment activity in the next fiscal.

- **Private sector project proposals drove the uptick in new announcements in Q3 FY2026**: New project announcements rose to a three-quarter high of Rs. 11.2 trillion in Q3 FY2026 from Rs. 9.3 trillion in Q2 FY2026, while printing only mildly higher than Rs. 11.0 trillion in Q3 FY2025. Private sector announcements were surprisingly healthy (Rs. 9.6 trillion; highest in Q3). However, the new projects by the Government sector remained muted through all quarters of FY2026 so far, with the cost rising slightly to Rs. 1.6 trillion in Q3 from Rs. 0.9 trillion in Q2.
- **Project completions at Rs. 1.8 trillion in Q3 FY2026; FY2026 completions to surpass FY2025 levels:** Project completions slowed to a four-quarter low of Rs. 1.8 trillion in Q3 FY2026. However, the average run rate of completions, at Rs. 2.1 trillion in 9M FY2026 was better than the levels recorded during 9M of FY2022-2024 (Rs. 1.6-1.9 trillion). As per CMIE data, Rs. 400 billion worth of projects have been commissioned in the first half of January 2026, resulting in aggregate completions of Rs. 6.4 trillion so far in FY2026, closer to the full-year completion cost of Rs. 6.5 trillion in FY2025. Given that there is usually a spike in Q4 of the fiscal, project commissioning in FY2026 is set to surpass FY2025 level and print between Rs. 8.0-9.0 trillion, albeit lower than Rs. 9.6 trillion seen in FY2024.
- **GoI pared its FY2026 capex target; budgeted 11.5% expansion in FY2027:** The GoI's capex has been cut to Rs. 11.0 trillion in FY2026 RE from Rs. 11.2 trillion in the BE, implying a sharp 16.0% YoY contraction in Q4 FY2026 (-23.4% in Q3 FY2026), which is likely to weigh on GDP growth during the quarter. Thereafter, it has pegged the gross capex at Rs. 12.2 trillion in FY2027 BE, a healthy 11.5% higher than FY2026 RE. Around 40% of the increase in capex has stemmed from 50Y capex assistance to states (to Rs. 2.0 trillion in FY2027 BE from Rs. 1.5 trillion in FY2026 RE), which suggests that the onus to execute capex on states has stepped up. While the GoI has also hiked the grants-in-aid for creation of capital assets (+60%) quite sharply, CPSEs IEBR (+11.5%) is expected to grow at a healthy pace in FY2027, which would boost GDP expansion, at a time when private capex may remain uneven across sectors.
- **Reduction in US tariffs to support investment activity in FY2027:** ICRA believes that the recent reduction in the US tariffs to 18% from 50% and the free trade agreement with the EU, would provide some competitive advantage to Indian exporters over other Asian countries. This improved visibility on the tariff front improves the outlook for merchandise exports and could support investment activity across some sectors in FY2027.

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Thank You!