ICRA

Investment Tracker

Temporary lull in investment activity during Q1 FY2025 owing to Parliamentary Elections to dampen GDP growth

AUGUST 2024

Highlights - I

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The YoY performance of seven of the 11 investment-related indicators moderated in Q1 FY2025 vis-à-vis Q4 FY2024.

Home sales volumes in top seven cities moderated by ~15 QoQ in Q1 FY2025, partly owing to seasonality, even as sales were up 6.7% on a YoY basis. ICRA pegs 10-12% growth in FY2025.

Project announcements stood at Rs. 1.1 trillion in Q1 FY2025, sliding to lowest level in two decades.

India witnessed a transient lull in the investment activity in Q1 FY2025, as signalled by the multi-year low new project announcements and project completions, as well as the year-on-year (YoY) deterioration in a majority of investment-related indicators, compared to Q4 FY2024. This can be attributed to the impact of Parliamentary Elections and the associated uncertainty and delays in project commissioning. Moreover, capital expenditure by both the Centre and 24 state governments contracted sharply on a YoY basis in Q1/2M FY2025, leaving a large headroom in the rest of the fiscal (required growth for Centre: +39%; 24 states: +38%) to meet the respective budgeted targets for FY2025. Besides, home sales in top 7 cities posted a 15-quarter low YoY growth of 6.7% in Q1 FY2025, while new project launches declined in the quarter. As business returns to normal, investment activity is likely to improve from Q2 onwards, although project execution may only gather speed once the monsoon season is over. ICRA believes that the task of achieving the Government capex target appears ambitious amid monsoon disruptions and uncertainty around entire absorption of interest-free capex loan to state governments. This implies that the revival of private capex cycle remains key to support investment activity, which is likely to be measured instead of exuberant, and contingent on demand conditions.

- **Performance of several investment-related indicators deteriorated in Q1 FY2025:** The YoY performance of seven of the 11 indicators moderated in Q1 FY2025, relative to Q4 FY2024, owing to the impact of General Elections on construction activity. These include the Centre's capex, capital outlay and net lending (NL) of 24 states, M&HCV (trucks) registrations, exports of engineering goods, infrastructure credit, and output of cement and capital goods. Notably, all the indicators (barring finished steel consumption) reported a single digit growth (1-9%) in this period.
- **Housing activity slowed in Q1 FY2025:** The area sold in the top seven cities fell by 14.6% QoQ to 168.2 msf in Q1 FY2025, partly owing to seasonality. On a YoY basis, the growth decelerated to a 15-quarter low of 6.7% from double digits in each of the last 13 quarters. Additionally, new project launches saw a YoY contraction for the second consecutive quarter in Q1 FY2025. ICRA expects sales volume to grow by 10-12% in FY2025 (+19% in FY2024).
- **Uncertainty during General Elections weighed on project announcements in Q1 FY2025:** As was largely expected, new project announcements plunged from the four-quarter high of Rs. 12.6 trillion in Q4 FY2024 to just Rs. 1.1

Highlights - II

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Expect announcements, awarding activity to improve from Q2 FY2025 onwards, as seen in past election years.

Project completions slumped from record Rs. 3.9 trillion to a meagre Rs. 0.4 trillion in Q1 FY2025, lowest in nearly 18 years.

GoI's capex and 24 states' capital outlay and NL declined by steep 35% YoY and ~12% YoY in Q1/2M FY2025 implying a robust growth (Centre: 39%; states: 38%) required in remaining part of the fiscal to meet FY2025 targets.

Achieving Government capex targets would be an ambitious task, amid disruptions in election and monsoon periods, and uncertainty in absorption of entire budgeted amount for capex loan scheme to state governments.

trillion in Q1 FY2025 when the General Elections were underway; this was the lowest cost in the last two decades. The announcements by the Government and private sector dipped to Rs. 0.4 trillion and Rs. 0.7 trillion, respectively, in Q1 FY2025, sliding to lowest levels in nearly 6.5 and 3.5 years, respectively. As business returns to normal after the election-related lull in the activity in Q1 FY2025, new investment proposals are expected to pick up from the ongoing quarter, a trend that is typically seen in the election years. Nevertheless, ICRA believes that the private capex cycle is likely to be measured and not exuberant amid the slow recovery in domestic rural demand, sluggish external demand, and the uncertainty stemming from geopolitical risks and elections in some advanced economies.

- **Project completions at just Rs. 0.4 trillion in Q1 FY2025 amid execution delays during election:** As per the early data, project completions were exceptionally low at Rs. 0.42 trillion in Q1 FY2025, the lowest level since Q2 FY2008 (Rs. 0.39 trillion; barring Covid-affected quarters). This was largely anticipated since execution had gained momentum in Q4 FY2024, when completions touched an all-time high of Rs. 3.9 trillion, before the Model Code of Conduct set in from mid-March 2024. Additionally, the General Elections are also likely to have delayed the commissioning of few projects that were intended to be completed in Q1 FY2025.
- **Government capex declined in Q1 FY2025, targets quite ambitious for FY2025:** In line with ICRA's expectations, the GoI retained the interim target for gross capital expenditure at Rs. 11.1 trillion in FY2025 revised budget estimates (RBE), entailing a growth of 17.1% over Rs. 9.5 trillion recorded in the FY2024 PA. While some state governments may present revised budget for FY2025, the previously presented budgets revealed a robust ~33% expansion in the combined capital outlay and NL of 24 states to Rs. 9.3 trillion over FY2024 PA. However, the GoI's capex shrunk by 35% YoY in Q1 FY2025, and the capital outlay and NL of 24 states dipped by 12% YoY in 2M FY2025. Accordingly, a sharp expansion is required in the remainder of the fiscal (Centre: +39% and 24 states: +38%) to meet the respective targets for FY2025. ICRA believes that achieving the GoI and states' capex target in FY2025 would be an ambitious task, amid the election-related disruptions in the early part of the fiscal. Besides, there is uncertainty around the absorption of entire budgeted amount for capex loans to states (Rs. 1.5 trillion: 44% growth over FY2024 RE) in the remaining eight months of the fiscal, which would depend on guidelines for tied portion of the scheme.

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Thank You!