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Investment Tracker

Investment activity saw a mixed trend in Q4 FY2025; cautious sentiment to prevail through FY2026 amid elevated trade tensions and uncertainty

MAY 2025

Agenda

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Highlights - I

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Six of the 11 investment-related indicators improved in Q4 FY2025 over Q3, largely pertaining to the construction sector.

Home sales volumes in the top 7 cities declined by 11.7% YoY in Q4 FY2025, vs. 10.2% in Q3. Sales are expected to rise by 1-4% in FY2026, aided by reduction in personal income tax, monetary easing lowering EMIs for borrowers and spillover of launches.

In the backdrop of trade-related uncertainty triggered by the US tariffs, India's investment activity showcased a mixed trend in Q4 FY2025. While the year-on-year (YoY) performance of only six of the 11 investment-related indicators improved in Q4 as compared to Q3, mostly pertaining to the construction sector, housing sales in the top 7 cities continued to contract, and project completions remained weak, compared to the year-ago levels. However, several state-investor meets pushed up project announcements to record levels in Q4 FY2025. Looking ahead, investor sentiments have turned cautious, amid rising trade tensions, and private corporate enterprises are likely to await the developments around tariffs, particularly on key exporting sectors like chemicals, engineering goods, textiles, and agriculture. Nevertheless, the capex of the Centre and state governments (capital outlay and net lending of 26 states) is budgeted to grow by 10.1% and 13.5% in FY2026, and domestic housing demand is likely to improve in the fiscal on the back of reduction in personal income tax and lower EMIs for borrowers amid rate cut of 50 bps (ICRA exp: further 50 bps cut likely in CY2025). This, along with strong order book of construction entities would augur well for the demand for construction inputs and project execution, although a delay in private capex amid lack of clarity on the impact of tariffs cannot be ruled out, which could weigh on investment activity in the ongoing fiscal.

- **Trends for investment-related indicators in Q4 FY2025 were mixed:** The YoY performance of six of the 11 investment related-indicators improved in Q4 FY2025 vis-à-vis Q3, most of which are related to the construction sector, including infrastructure/construction goods' output, cement production, finished steel consumption, and M&HCV registrations (truck segment). In contrast, the performance of capital expenditure of the Centre and states (in January-February 2025), stamp duty collections, and capital goods' output weakened in Q4 FY2025 over Q3.
- **Home sales declined by 11.7% YoY in Q4 FY2025:** The area sold in the top seven cities contracted for the third consecutive quarter in Q4 FY2025, with the pace of the same widening slightly to 11.7% from 10.2% in Q3. Overall, in FY2025, the area sold declined by 8.1%, partly on account of an elevated base (+17.4% in FY2024) and lower-than-anticipated launches owing to delayed approvals. With some of the launches expected to spill over to FY2026, ICRA expects the residential sales to grow by a modest 1-4% in FY2026. Moreover, the reduction in personal income tax, lower EMIs after a 50-bps rate cut, and likelihood of another 50 bps cut over the next six months is expected to augur favourably for the housing sector.

Highlights - II

Project announcements surged to an all-time high of Rs. 19.2 trillion in Q4 FY2025, while project completions remained subdued at Rs. 1.6 trillion.

While elevated project announcements augur well for investment activity, heightened uncertainty from tariff-related developments may lead to deferment of capex by corporates.

The GoI's on-budget capex is pegged at Rs. 11.2 trillion in FY2026, 10% higher than Rs. 10.2 trillion in FY2025 RE.

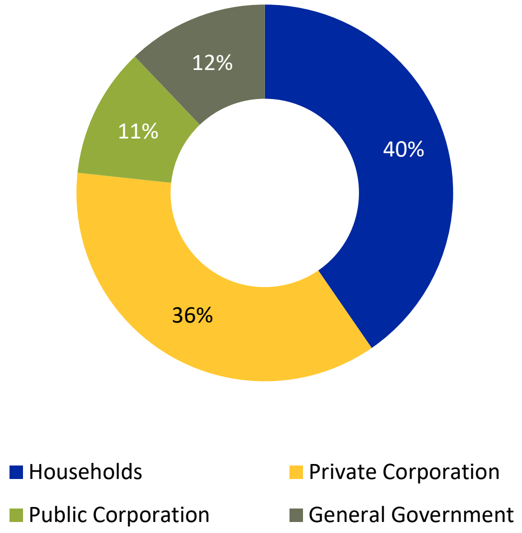
The subdued outlook for India's exports along with concerns of an increase in imports, will prevent a broad-based kick off in the private capex cycle in FY2026. In such a scenario, the Government's capex push would be key to support growth outcomes.

- **Project announcements surged in Q4 FY2025, while completions trailed year-ago levels:** The value of new project announcements rose to a record-high of Rs. 19.2 trillion in Q4 FY2025 from Rs. 16.1 trillion seen in Q4 FY2024. This was driven by state-investor meets in Madhya Pradesh, Kerela, Karnataka, and West Bengal. Project completions remained lacklustre at Rs. 1.6 trillion in Q4 FY2025, ~59% lower on a YoY basis, and were ~50% lower in FY2025 amid a slump in Government-led completions. Although elevated private sector project announcements over the last three years augur well for investment activity, heightened uncertainty arising from tariff-related developments may lead to deferment of capex by corporates. Additionally, as per data published by the Government of India (GoI), as many as 677 of the 1,677 outstanding central sector infrastructure projects reported physical progress between 80% and 100% as at end-March 2025, which augurs well for Government-led project completions in FY2026.
- **Double-digit growth in Government capex in FY2026 BE:** The tepidness in the GoI's capex (+0.8% YoY) and states' capital outlay and net lending (+0.5%) during 11M FY2025 weighed on India's GDP growth in FY2025. The GoI has estimated gross capex to rise by 10.1% or Rs. 1.0 trillion in FY2026 BE vs. FY2025 RE. A majority of this uptick stems from the undisclosed "new" schemes by the Ministry of Finance (+Rs. 0.3 trillion) and 50Y interest-free capex loans to state governments (+Rs. 0.3 trillion). An early articulation of the new schemes and the details regarding the tied and untied portion of the capex loans scheme would aid in getting capex off to an early start. The capital outlay and net lending by 26 state governments is budgeted to rise by 13.5% in FY2026 BE vs. FY2025 RE; with actuals in FY2025 likely to trail the RE, there is ample headroom for growth in FY2026, although this may not materialise.
- **Government capex push key to support growth in FY2026 amid expectations of weak private capex:** The domestic environment is broadly conducive for private capex with consumption growth set to improve in FY2026 aided by income tax relief and the transmission of the monetary easing cycle, which would help cool borrowing costs. This complements the existing conditions including elevated capacity utilisation levels, cleaner balance sheets and sizeable new project announcements in the recent period. However, weak external demand amid global headwinds owing to the impending tariff-related developments and the subdued outlook for India's exports, along with concerns of an increase in imports owing to dumping in some sectors, will likely delay a portion of the private capex in FY2026. In such a scenario, the Government's capex push would be key to support growth outcomes.

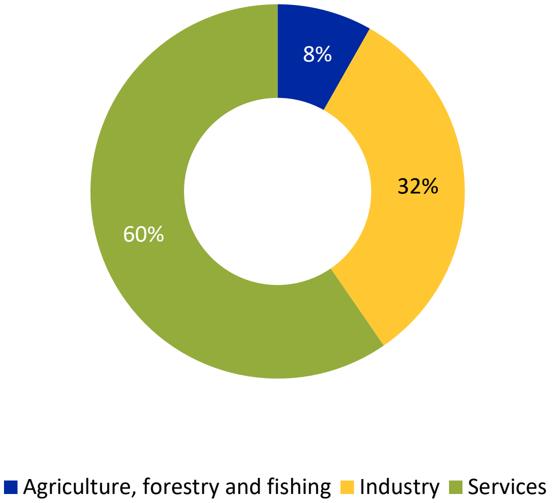
Investment demand in India

Contribution to Gross Fixed Capital Formation – based on Ownership, Sector and Asset

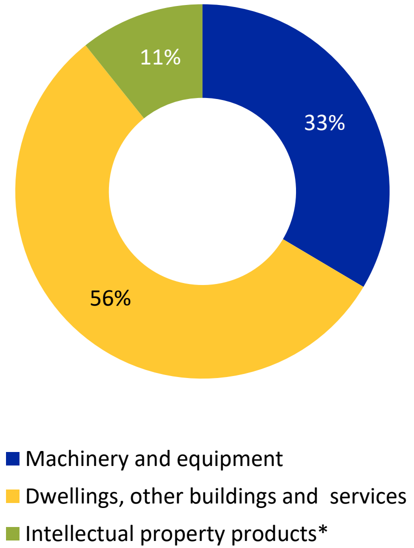
By Ownership (FY2012-24)



By Sectors (FY2012-23)



By Assets (FY2012-24)



**including cultivate biological resources; Source: ICRA Research*

Trends in investment demand in India

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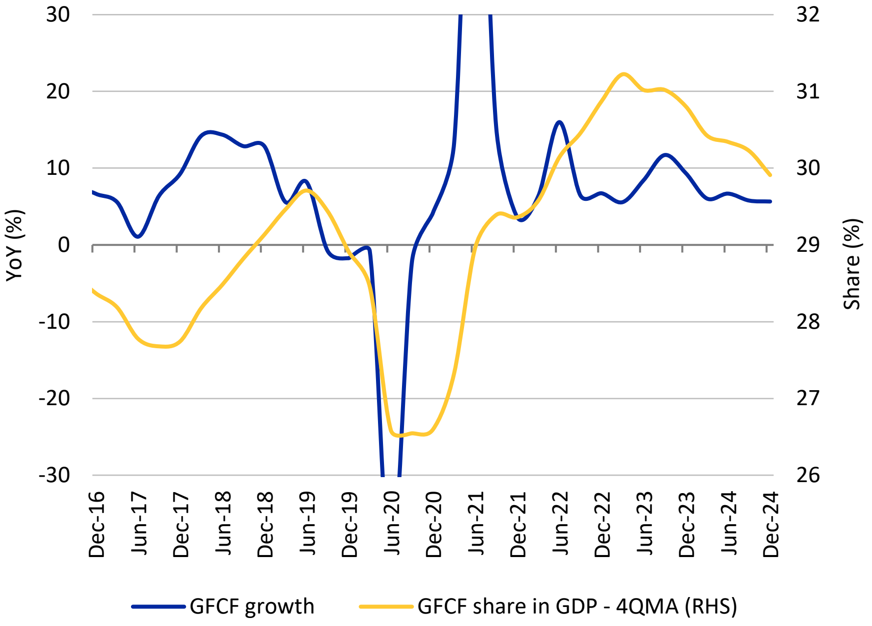
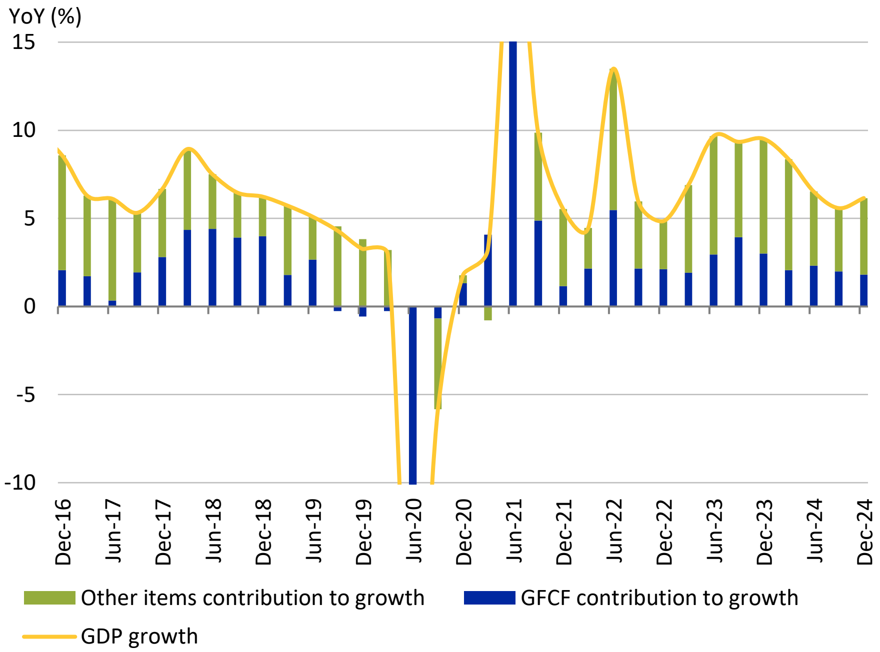
EXHIBIT: YoY growth in real GFCF and share of nominal GFCF in nominal GDP



Source: National Statistical Office (NSO); CEIC; ICRA Research

EXHIBIT: GDP growth and contribution of GFCF and non-GFCF to GDP growth



Source: NSO; CEIC; ICRA Research

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	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
Vinita Baid	Head Business Development – East	vinita.baid@icraindia.com	033-65216801
Shivam Bhatia	Head Business Development – Corporate Sector – North & South	shivam.bhatia@icraindia.com	0124-4545803
Sanket Kulkarni	Head Business Development – Corporate Sector – West	sanket.kulkarni@icraindia.com	022-6169 3365
Naznin Prodhani	Head - Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

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Thank You!