ICRA

Investment Tracker

Strong Government capex supported investment activity in Q1 FY2026; fiscal buffers to enable Centre to do heavy lifting amid cautious private capex

JULY 2025

Agenda

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

Sensitivity Label : Public

Highlights – I

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The growth performance of 6 of the 11 investment-related indicators improved in Q1 FY2026 over Q4 FY2025.

Home sales volumes declined by 4.6% YoY in Q1 FY2026, after contracting by 8.4% in FY2025, amid lower launches and heightened global uncertainty.

Notwithstanding heightened uncertainty owing to geopolitical tensions and tariff-related developments, India's investment activity appears to have held up in Q1 FY2026. This was attributed to healthy year-on-year (YoY) expansion in capital expenditure of the Centre (+54% in April-May FY2026) and state governments (+25%, capital outlay and net lending), robust project completions particularly of Central infrastructure projects, and the YoY increase in new project announcements albeit on an election-curtailed base. However, private capex likely remained cautious given the uncertain external environment, and home sales in top seven cities contracted by ~5% in YoY terms in the quarter. Although construction-related indicators softened, the growth in cement output and steel consumption remained healthy at ~8%, which would support construction GVA growth in Q1 FY2026. Based on ICRA's assessment, the Centre may be able to boost its capex growth to 14.2% in FY2026 (vs. 6.6% in FY2026 budget estimate over FY2025 provisional estimate), with additional spending of Rs. 0.8 trillion over the budgeted Rs. 11.2 trillion. This would support growth amid the expected sluggishness in private capex owing to the uncertainty around the outcomes of the US-India trade deal which would have a bearing on export-oriented sectors.

- **Majority of investment-related indicators improved in Q1 FY2026:** The YoY growth performance of 6 of the 11 investment-related indicators improved in Q1 FY2026 relative to Q4 FY2025, including the Government of India's (GoI's) capital spending, states' stamp duty collections, engineering goods exports and imports, capital goods output (led by machinery and equipment), and M&HCV registrations. However, the construction-related indicators (cement output, and finished steel consumption), infrastructure credit, and states' capital outlay and net lending (although it remained healthy at +25%) saw a weakening in their YoY performance between these quarters.
- **Home sales eased by 4.6% YoY in Q1 FY2026, amid normalising demand, lower launches:** The area sold in the top seven cities continued to contract for the fourth consecutive quarter in Q1 FY2026, albeit by a narrower 4.6% to 154.3 msf (-13.7% in Q4 FY2025). On a QoQ basis, the area sold fell by 4.0% from 160.8 msf in Q4 FY2025, amid lower launches as well as an escalation in geopolitical uncertainties in the quarter. ICRA expects residential sales to grow by ~1-4% in FY2026, after the 8.4% contraction seen in FY2025. This would be supported by an estimated 6-9% growth in new launches in FY2026, with the materialisation of spillovers from FY2025 as well as low inventory levels.

Highlights – II

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Project announcements plunged to a 4-quarter low Rs. 5.7 trillion in Q1 FY2026.

The GoI's capex surged by ~54% YoY during 2M FY2026, averaging at Rs. 1.1 trillion, up from required monthly run rate of Rs. 0.9 trillion for FY2026.

Assessed extra fiscal space is likely to enable the GoI to enhance capex growth to ~14% in FY2026 from the embedded target of 6.6%.

Subdued outlook for India's exports along with concerns of higher imports, will prevent a broad-based kick off in the private capex cycle in FY2026.

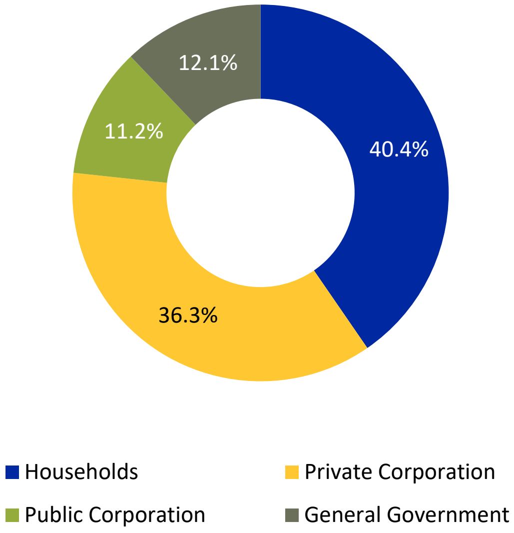
The Government's capex push would be key to support growth outcomes in FY2026.

- **Heightened uncertainty weighed on project proposals in Q1 FY2026**: The value of new project announcements fell to a 4-quarter low of Rs. 5.7 trillion in Q1 FY2026 from the unusually high Rs. 21.8 trillion in Q4 FY2025, while exceeding year ago levels of Rs. 3.0 trillion. Proposals by the Government slumped to a multi-decadal low in Q1 FY2026 (Rs. 0.6 trillion) following the concentration seen in Q4 FY2025 owing to various state investor meets. While announcements by the private sector more than tripled to Rs. 5.0 trillion on a YoY basis, this is on the back of the election-curtailed low base, and quite muted compared to the average levels seen during Q2-Q3 FY2025, with heightened uncertainty owing to tariff-related tensions and escalating geopolitical conflicts weighing on announcements. Interestingly, the cost of completed Central sector infrastructure projects surged to Rs. 1.4 trillion in Q1 FY2026, equivalent to ~52% of the commissioned cost in FY2025 (Rs. 2.6 trillion), which along with the healthy physical progress in a large share of such projects, implies that commissioning is likely to improve in FY2026.
- **GoI and states' capex to grow by double digits in FY2026**: The GoI's capex surged by ~54% YoY to Rs. 2.2 trillion in 2M FY2026; it can now contract by ~1% in the remainder of FY2026 and still meet the BE of Rs. 11.2 trillion. Given the buffers from the higher-than-expected RBI dividend and the higher-than-budgeted nominal GDP print, ICRA estimates the GoI to enhance its capex by ~Rs. 0.8 trillion to ~Rs. 12.0 trillion in FY2026 relative to the BE, pushing its growth to 14.2% (vs. +6.6% in FY2026 BE over FY2025 PE). Moreover, the aggregate capital outlay and net lending of 20 state governments rose by 25.2% to Rs. 1.1 trillion in Q1 FY2026. ICRA anticipates that the states' capital outlay and net lending will trail the FY2026 BE, but the YoY growth may still print in double digits.
- **Government capex push key to support growth in FY2026:** The domestic environment is broadly conducive for private capex with consumption growth set to improve aided by income tax relief and lower interest rates. This complements the existing conditions including elevated capacity utilisation levels and cleaner balance sheets. However, weak external demand amid global headwinds including the impending tariff-related developments, along with concerns of an increase in imports owing to dumping in some sectors, will likely delay a portion of the private capex. Consequently, the Government's capex push would be key to support growth outcomes in FY2026.

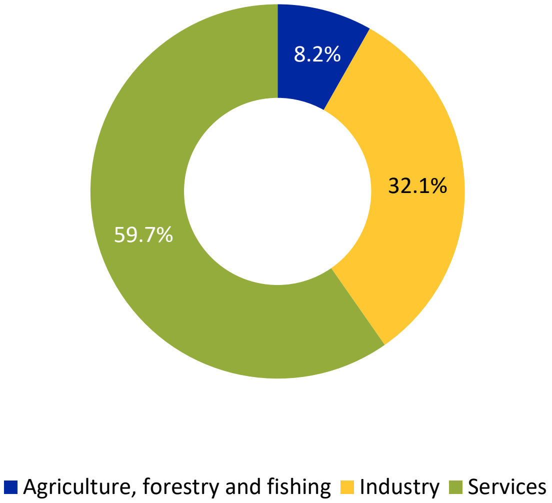
Breakup of India's investment demand

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

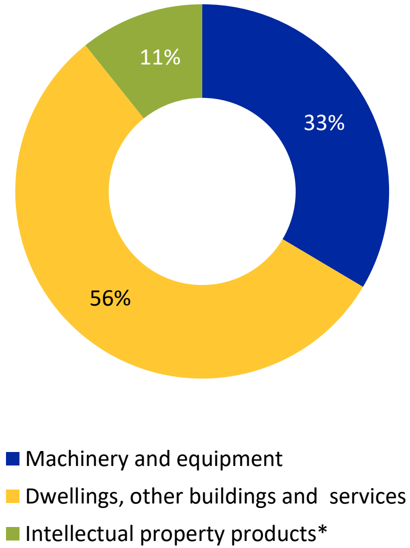
By Ownership (FY2012-24)



By Sectors (FY2012-24)



By Assets (FY2012-24)



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

Trends in India's investment demand

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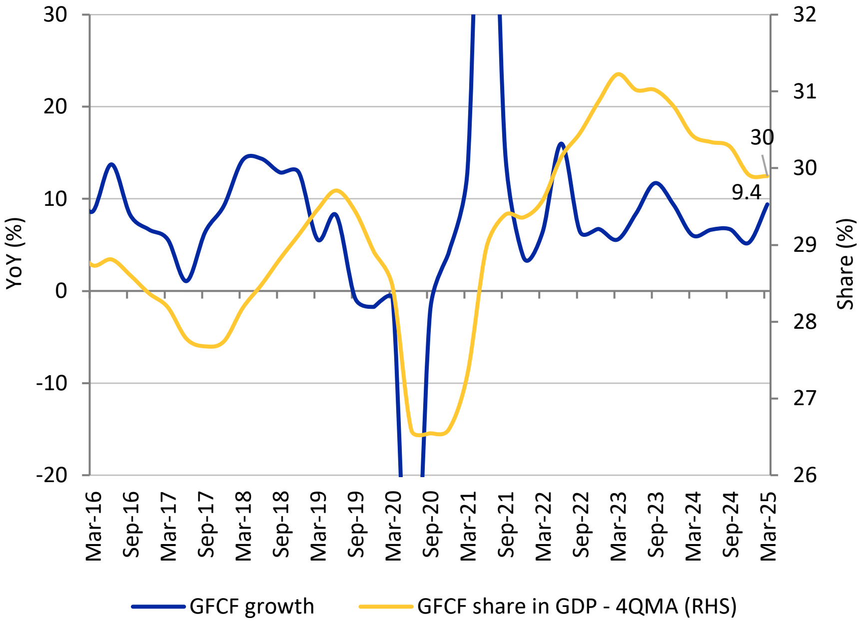
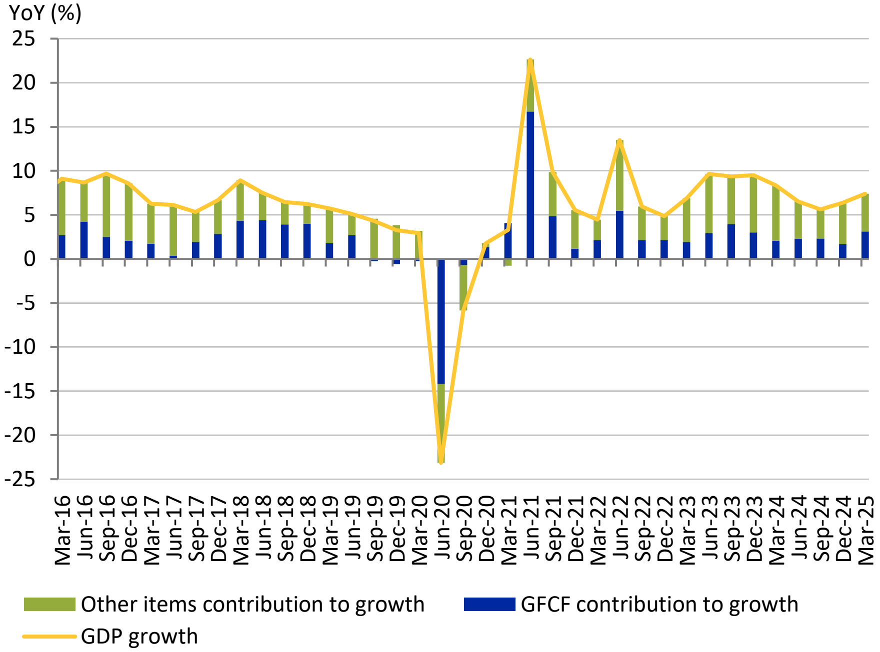
EXHIBIT: YoY growth in real GFCF and share of nominal GFCF in nominal GDP



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

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Thank You!