

Press Release

Core sector growth slows to 2.9%

Fertilizer posts strong growth, crude oil and natural gas remain worrisome

March 28, 2025

The Eight Core Industries (ICI) saw a muted growth of 2.9% in Feb'25, a notable decrease from 7.1% in Feb'24 and a revised figure of 5.1% in Jan'25. During the April-February period of FY25, the growth of the core sector was recorded at 4.4%, a decrease from 7.8% in the corresponding period of the previous fiscal year.

Cement continues its robust growth trajectory, driven by strong demand due to increased construction activity. Similarly, the fertilizer industry has made a notable achievement by recording a growth rate of 10.2% in Feb'25, stimulated by pre-monsoon demand and augmented government subsidies. In contrast, natural gas production has declined for the eighth consecutive month, while crude oil output has experienced a sharp 5.2% drop, marking its steepest decline in recent times.

Recent GDP data indicates that manufacturing is expected to grow by 4.3% in FY25, a significant decline from the 12.3% growth recorded in the previous fiscal year. The subdued performance of the core sector highlights the drop in capital expenditure (capex) growth during the first half of the year, compounded by muted sentiments in the market. The central government has revised its capex target for FY25 to INR 10.2 lakh crore, down from INR 11.1 lakh crore projected in the Budget estimates.

Here are our brief comments on each of the core industries

Coal production (weight: 10.33%) grows at a slower pace of 1.7% in Feb'25 versus Feb'24. Over the period from April to February 2024-25, the cumulative index rose by 5.6% compared to the same period in the previous year. Coal production rose by 1.7% to 98.3 MT in Feb'25 compared to 96.6 MT in Feb'24. With domestic coal production on a steady trend, India is reducing its dependence on imported coal, bolstering its energy security. For FY 2025-26, the Ministry of Power has projected a coal requirement of 906.1 MT, aligning with the Ministry of Coal's supply plan to meet the power sector's needs.

Cement production (weight: 5.37%) continues the growth momentum of 10.5% in Feb'25 as against Feb'24. From April to February 2024-25, the cumulative index grew by 5.1% compared to the same period in the previous year. Cement production experienced a revival in demand during Q3 FY25. A steady increase in construction activities enhanced rural demand, momentum in the real estate sector, and heightened government spending contributed to improved cement demand in Feb'25. Further, initiatives aimed at reducing costs and enhancing operational efficiency include optimizing lead distances (the distance between manufacturing

facilities and markets), increasing the share of green power, and optimizing logistics to further increase cement demand.

Electricity generation (weight: 19.85%) shows a slight improvement of 2.8% in Feb'25 over Feb'24. Over the period from April to February 2024-25, the cumulative index rose by 4.9% compared to the same period in the previous year. India's power consumption saw a slight increase to 131.54 billion units (BU) in Feb'25, up from 127.34 BU during the same month last year. Power usage remained moderate in an unusually warm Feb'25, and it is anticipated that power demand and consumption will rise in Mar'25, which is expected to be hotter than normal due to the increased use of fans, coolers, and air conditioners.

Natural Gas production (weight: 6.88%) witnessed a notable decline of 6.0% in Feb'25, as opposed to Feb'24, continuing its downward trajectory. Additionally, the cumulative index for the period from April to February 2024-25 reflected a decrease of 0.1% compared to the same timeframe last year. India's natural gas production dropped by 6.7% in Feb'25 to 2,748.9 million metric standard cubic meters (MMSCM) from 2,946.7 MMSCM in Feb'24. Production has been declining in recent times primarily on account of the natural decline of its mature fields. On the other hand, import dependency increased to 51.3% in FY25 from 46.8% in FY24, highlighting increased reliance on LNG imports. Despite higher consumption driven by industrial and power sectors, domestic production challenges persist, requiring policy reforms and infrastructure upgrades to curb imports and support energy transition goals.

Steel production (weight: 17.92%) saw a 5.6% rise in Feb'25 relative to Feb'24. Over the period from April to February in the fiscal year 2024-25, the cumulative index for steel production grew by 6.5% compared to the same period in the previous year. Steel production rose to 12,661 million tonnes (MT) from 11,884 MT in Feb'24, posting a 6.5% increase. The Indian steel industry is navigating a challenging landscape characterized by rising domestic demand driven by infrastructure and housing projects, while imports, although reduced, continue to be a concern. To address challenges posed by increasing imports and safeguard domestic producers, the Directorate General of Trade Remedies (DGTR) has proposed a provisional 12% safeguard duty on specific steel products for 200 days.

Crude Oil production (weight: 8.98%) contracted sharply by 5.2% in Feb'25 as compared to Feb'24. Its cumulative index also declined by 2.2% from April to February 2024-25 compared to the same period in the previous year. India's crude oil production in Feb'25 dropped to 2.2 million metric tonnes (MMT), marking a 5.1% decline compared to 2.3 MMT in Feb'24, while crude oil imports rose by 4.7% during the month. This trend, driven by stagnant domestic production and increasing fuel demand, has led to an import dependency of over 88% in the first 11 months of FY25, potentially surpassing last year's record levels. In parallel, crude oil production for the fiscal year 2024-25 remains below expectations, with cumulative production standing at 24.2 MMT until February, significantly trailing the target of 28.5 MMT. To address this

decline, government action, including the implementation of the Oilfields (Regulation and Development) Act, is essential to boost domestic oil and gas production.

Petroleum Refinery production (weight: 28.04%) growth slowed by 0.8% in Feb'25. Its cumulative index increased by 3.1% from April to February 2024-25 over the corresponding period of the previous year. India's petroleum product output in Feb'25 reached 22.5 million metric tonnes (MMT), a slight 0.2% rise from 22.4 MMT in Feb'24. This modest increase comes amid growing domestic demand for refined products, supported by steady economic activity and rising transportation fuel consumption. However, challenges like refinery maintenance and geopolitical factors impacting crude imports emphasize the need for better production strategies. The refining sector's expansion has strengthened India's trade partnerships with South Asian, African, and European nations. Additionally, India ranks second globally in biofuel blending and third in biofuel production, with a target to achieve 20% ethanol blending by late 2026.

Fertilizer production (weight: 2.6%) makes a comeback by 10.2% in Feb'25 in comparison with Feb'24. Its cumulative index increased by 2.4% from April to February 2024-25 over the corresponding period of the previous year. Feb'25 saw notable developments in the fertilizer sector due to policy initiatives, though challenges such as price volatility and import dependency persist. The Union Budget 2025 allocated INR 1.56 lakh crore for fertilizer subsidies and promoting organic and alternative fertilizers to reduce reliance on chemical fertilizers like urea and NPK while boosting domestic production. Efforts include encouraging nano urea and nano DAP to lower subsidy costs. A significant step was the establishment of a urea production plant in Assam with an annual capacity of 1.27 million metric tonnes, aligning with the government's goals.

Below is Acuite Ratings & Research Limited's comment on the Feb 2025 Core sector data:

"The core sector print of 2.9% growth for Feb 25 indicates a significant deceleration in industrial activity, although the print for Jan 25 is revised up from 4.6% to 5.1%. The slowdown is driven by a contraction in crude oil (-5.2%) and natural gas (-6.0%) production. However, we expect the power sector to bounce back in March, driven by rising temperatures and increased electricity demand. While coal, petroleum refinery products, and electricity managed to post positive growth, their expansion was far weaker compared to previous months. However, we are witnessing a strength in cement (10.5%) and steel (5.6%), buoyed by increased construction due to a rise in government spending. With rising public expenditure and a steady demand for core industrial goods, we anticipate a gradual reversal of this sluggishness."

Chart 1: Core Sector Growth (YoY%) : Feb'25 vs Feb'24

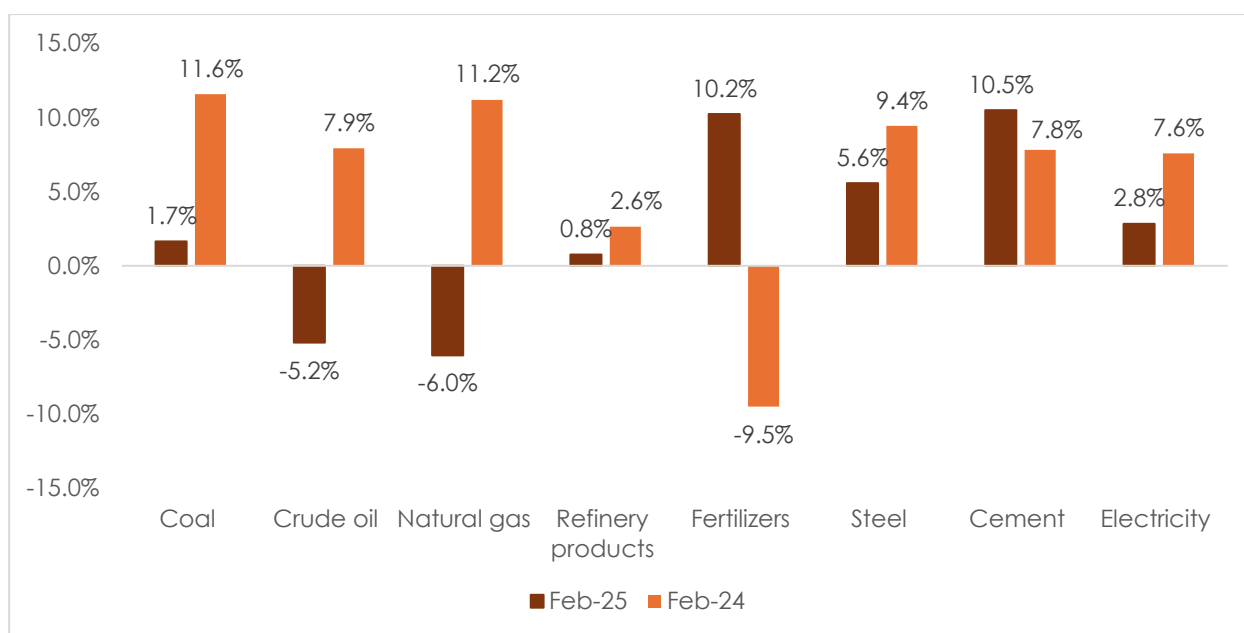


Table 1:Core Sector Heatmap:

| Sector | Overall Growth | Coal | Crude Oil | Natural Gas | Refinery Products | Fertilizers | Steel | Cement | Electricity |
|--------|----------------|------|-----------|-------------|-------------------|-------------|-------|--------|-------------|
| Feb-24 | 7.1 | 11.6 | 7.9 | 11.2 | 2.6 | -9.5 | 9.4 | 7.8 | 7.6 |
| Mar-24 | 6.3 | 8.7 | 2.1 | 6.3 | 1.6 | -1.3 | 7.5 | 10.6 | 8.6 |
| Apr-24 | 6.9 | 7.5 | 1.7 | 8.6 | 3.9 | -0.8 | 9.8 | 0.2 | 10.2 |
| May-24 | 6.9 | 10.2 | -1.1 | 7.5 | 0.5 | -1.7 | 8.9 | -0.6 | 13.7 |
| Jun-24 | 5.0 | 14.8 | -2.6 | 3.3 | -1.5 | 2.4 | 6.3 | 1.8 | 8.6 |
| Jul-24 | 6.3 | 6.8 | -2.9 | -1.3 | 6.6 | 5.3 | 7.0 | 5.1 | 7.9 |
| Aug-24 | -1.5 | -8.1 | -3.4 | -3.6 | -1.0 | 3.2 | 4.1 | -2.5 | -3.7 |
| Sep-24 | 2.4 | 2.6 | -3.9 | -1.3 | 5.8 | 1.9 | 1.8 | 7.6 | 0.5 |
| Oct-24 | 3.8 | 7.8 | -4.8 | -1.2 | 5.2 | 0.4 | 5.7 | 3.1 | 2.0 |
| Nov-24 | 5.8 | 7.5 | -2.1 | -1.9 | 2.9 | 2.0 | 10.5 | 13.1 | 4.4 |
| Dec-24 | 4.8 | 5.3 | 0.6 | -1.8 | 2.8 | 1.7 | 7.3 | 4.6 | 6.2 |
| Jan-25 | 5.1 | 4.6 | -1.1 | -1.5 | 8.3 | 3.0 | 4.7 | 14.6 | 2.4 |
| Feb-25 | 2.9 | 1.7 | -5.2 | -6.0 | 0.8 | 10.2 | 5.6 | 10.5 | 2.8 |

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