

## Press Release

### Core sector takes a break in Jun'24

Coal and electricity prime drivers while steel and cement slip on growth

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India's core sector growth moderated to 4.0% in June 24 after witnessing robust growth of 6%-7% over the last four months. Nevertheless, the core output growth in the first quarter of the fiscal still stands at 5.7%, given the stronger momentum in April-May. Coal and electricity continued to be the growth engines for the core sector in Jun'24 with output rising by 14.8% and 7.7% YoY. However, the other key core sectors such as steel and cement witnessed a lower output growth of 2.7% and 1.9% respectively due to the election induced slower construction activity. On the other hand, fertilizer output showed a positive growth of 2.4% after five months of YoY contraction, reflecting expectation of better monsoon and sowing in current year.

Here are our brief comments on each of the core industries:

**Coal** production (weight: 10.3%) maintained its double-digit growth for second consecutive month with YoY growth of 14.8% in June 2024 compared to 9.7% in June 2023. Its cumulative index increased by 10.9% during April to June, 2024-25 over corresponding period of the previous year. The power sector played a significant role in this growth, with coal production for power generation up by 20.5% in Q1FY25. The Ministry of Coal is spearheading a major initiative aimed at reducing coal imports and enhancing coal exports, signalling a crucial shift in India's energy sector.

**Cement** production (weight: 5.4%) exhibited a marginal uptick 1.9% in June 2024 compared to 9.9% in June 2023. Its cumulative index increased very modestly by 0.3% during April to June, 2024-25 over corresponding period of the previous year. Cement industry experienced a muted volume growth of 2-3% in the first quarter of FY25. This can be attributed primarily to a temporary dip in construction activity caused by the general elections, which impacted the momentum of new projects and construction initiatives. Despite this temporary setback, the medium-term outlook for the cement sector remains positive, as construction activities pick up post-elections and government spending picks up sharply.

**Electricity** generation (weight: 19.8%) escalated by 7.7% in June 24 compared to 4.2% in June 23. Its cumulative index increased by 10.5% during April to June, 2024-25 over corresponding period of the previous year. Power consumption rose by 9% YoY in June 2024. In June 2024, the peak power demand met reached 245.4 GW, up from 224.1 GW in June 2023. This increase in peak demand was partly due to the delayed rains and heat waves in some parts of the country which led to a greater use of cooling devices during peak hours. India's power generation capacity has nearly doubled since 2014, reaching 446,190 MW by June 2024. While this expansion has been driven by increased renewable energy sources, the dependence on coal fired plants for meeting peak load remains high.

**Natural Gas** production (weight: 6.9%) increased by 3.3% YoY compared to the previous year of 3.5%. Its cumulative index increased by 6.4% during April to June, 2024-25 over corresponding period of the previous year. In June 2024, India's total natural gas consumption, including internal use, surged to 5.6 billion metric standard cubic meters, marking a 7.1% increase from June 2023. This rise is attributed to more households using natural gas for cooking and increased demand in the urban transport sector, according to data from the Ministry of Petroleum and Natural Gas. The growing consumption reflects the broader application of natural gas, extending from electricity generation and heating to its critical role as a feedstock in industries such as fertilizers and plastics.

**Steel** production (weight: 17.9%) grew by only 2.7% YoY in June 2024 compared to 21.3% in June 2023. Its cumulative index increased by 6.0% during April to June, 2024-25 over corresponding period of the previous year. Steel demand remained largely healthy despite the temporary slowdown in Jun'24. Driven by high demand from sectors such as real estate. Home construction in major cities reached an 11-year high in the first half of 2024, strengthening domestic demand for steel.

**Crude Oil** production (weight: 9.0%) India's indigenous crude oil production decreased by 2.6% to 2.4 million metric tonne (MMT) in June 2024 compared to decline of 0.7% in June 2023. Its cumulative index declined by 0.7% during April-June, 2024-25 over corresponding period of the previous year. Domestic production of crude oil continues to be constrained, leading to higher dependence on imports.

**Petroleum** Refinery production (weight: 28.0%) exhibited slowdown of 1.5% compared to 4.5% in June 2023; output cumulatively increased by only 0.9% for the April to June period. The slowdown in refinery production has been attributed to several factors such as lower consumption during maintenance shutdowns at certain refineries that has led to reduced output. Further, operational issues, including technical problems and supply chain disruptions affecting the industry that has influenced the production levels. Additionally, adverse weather conditions have disrupted refinery operations, contributing to the temporary production decline.

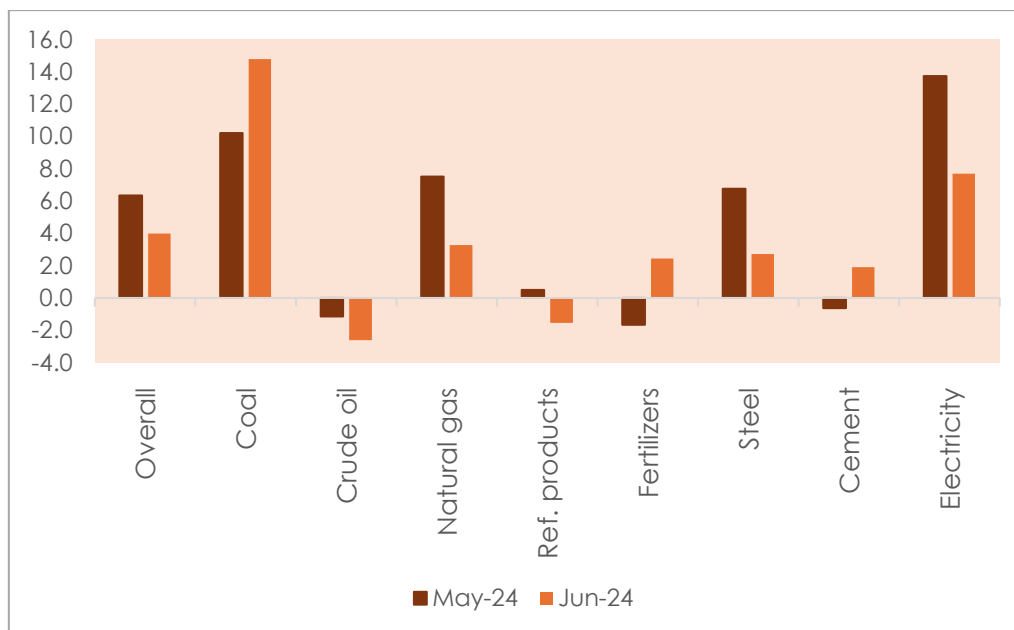
**Fertilizer** production (weight: 2.6%) showed a strong increase of 2.4% in June 24 after witnessing annualized output contraction since Jan-24. Its cumulative index remained stagnant during April to June, 2024-25 over corresponding period of the previous year. In Jun-24, the Indian fertilizer sector saw moderate growth driven by seasonal demand for key fertilizers like urea, DAP, and potash due to favourable monsoon conditions and increased crop acreage.

Says **Suman Chowdhury, Chief Economist and Head – Research, Acuite Ratings & Research** "India's core sector growth decelerated to 4.0% in Jun'24 but given the stronger print in Apr-May, the overall growth in the first quarter of the fiscal stood at a healthy 5.7%. This can be possibly attributed to lower spending on Government Capex before the general elections and the slowdown in construction activity which has led to a temporary slack in demand for steel and cement. The output in these two sectors grew very modestly by 2.7% and 1.9% YoY respectively. The core segments that

continued to show robust output growth are coal and electricity, given higher power demand in the backdrop of a delayed monsoon and heatwave conditions in some parts of the country.

We expect a revival in the core sector growth from the second half of the year."

**Chart 1: Monthly and cumulative output growth (YoY) in Core Sector in June 2024**



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