

## Press Release

### Steady growth in the core sector Output growth at over 6.0% for four consecutive months

June 29, 2024

India's core sector growth largely retained its strength with a slight moderation in annualized growth to 6.3% in May-24 from a revised 6.7% in the previous month, primarily due to slower output growth in the cement and the steel industries. The growth momentum was supported by the group of energy industries - namely Electricity, Coal and Natural Gas. Higher demand for energy under intense summer conditions has led to a 12.8% YoY rise in electricity generation, the highest seen in the last seven months which expectedly, also boosted coal production that increased by 10.2% YoY. Fertilizer production continued to be lacklustre posting an annualized contraction for the fifth month in a row, reflecting weaker demand conditions from the farm sector.

As in the previous year, the government's focus on capital expenditure continues to sustain the growth in the core sector. However, the national elections have impacted the pace of public spending and along with severe heatwaves in some parts of the country, may have contributed to the moderation in output growth.

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

**Coal** production (weight: 10.3%) grew by 10.2% in May 2024 compared to 7.2% in May 2023. The cumulative output for April to May 2024 increased by 8.9% compared to the same period in the previous year. In May 2024, India's coal production increased by 10.14% YoY to reach 83.9 million tonnes (MT), while coal dispatches rose by 9.1% to 89.9 MT compared to the same period last year. Domestic coal production has continued to grow steadily supported by improved transportation efficiency. Such growth also underscores the country's increasing reliance on thermal power amid rising electricity demand.

**Electricity** generation (weight: 19.8%) showed a strong year-on-year growth of 12.8%, contrasting with a muted growth of 0.9% in April 2023. The cumulative index for April to May 2024-25 increased by 11.6% compared to the same period in the previous year. This rise in electricity generation can be attributed to heightened energy demand driven by increased industrial activity, greater use of air conditioning during summer, and steady expansion in renewable energy capacity.

**Cement** production (weight: 5.4%) saw a 0.8% decrease in May 2024 compared to a notable 16.0% increase in May 2023. Cement output has been sluggish in the first quarter of the current year partly due to the slowdown in infrastructure projects during the election period and partly due to the base factor. The cumulative index for April to May 2024-25 declined by 0.6% YoY.

**Natural Gas** production (weight: 6.9%) rose by 7.5% YoY, recovering from a 0.4% decline observed in the same month of the previous year. The cumulative index increased by 8.0% during April to May 2024-25 compared to the corresponding period in the previous year. The steady rise in domestic gas production has helped to cater to the increasing demand for the fuel across diverse sectors, underscoring its crucial contribution to industrial and economic expansion in India. In May 2024, India's gross natural gas production grew by 6.7% YoY to reach 3,105 million metric standard cubic meters (MMSCM), marking a notable milestone. Concurrently, the total natural gas consumption in May 2024 soared to a provisional record of 6,605 MMSCM, the highest ever recorded for the month.

**Steel** production (weight: 17.9%) increased by 7.6% YoY in May 2024 moderating from the 11.9% growth in the preceding year. The cumulative index for April to May'24 also rose by 8.2% compared to the same period in the previous year. India's steel production rose by a relatively moderate 3.5% YoY to 12.2 million tonnes. Positioned as a leader in global steel production growth for 2024, India however, recorded a healthy 7.7% YoY, reflecting the stronger domestic demand as compared to the weakness in the global steel demand. Increased domestic demand is bolstering the steel industry, driven by robust economic activities, government infrastructure projects and sustained growth in automotive sector. Supportive policies and substantial investments in capacity expansions are further contributing to this growth. The anticipated recovery in Chinese demand expected to contribute to the stabilization of global steel prices.

**Crude Oil** production (weight: 9.0%) India's indigenous crude oil and condensate production fell by 1.1% YoY to 2.5 million metric tonnes (MMT) compared to decline of 1.9% previous year. Its cumulative index however, increased by 0.2% during April-May, 2024-25 over corresponding period of the previous year but the inherent constraints to growth in domestic production remain. During May-24, production also declined due to maintenance at oil fields and refineries, alongside geopolitical factors impacting extraction rates.

**Petroleum** Refinery production (weight: 28.0%) exhibited a marginal uptick to 0.5% compared to 2.8% in May 2023. Its cumulative index increased by 2.2% during April to May, 2024-25 over corresponding period of the previous year. The production of petroleum products reached 24.0 million metric tonnes (MMT), driven by refinery output of 23.7 MMT and a fractionator contribution of 0.3 MMT. There was a sluggish 2.2% growth in petroleum product production during April-May FY2024-25 compared to the previous fiscal year's same period.

**Fertilizer** production (weight: 2.6%) was down by 1.7%, marking the fifth consecutive monthly decrease, compared to a 9.7% growth in May 2023. The cumulative index for April to May 2024-25 decreased by 1.2% compared to the same period. While there is a forecast for a favourable monsoon in the current year, it is yet to be reflected in the production and demand for fertilizers. It may be noted that in the interim Union Budget

for FY25, ₹1.64 trillion was allocated for fertilizer subsidy, lower than the revised estimate of ₹1.88 trillion for FY24.

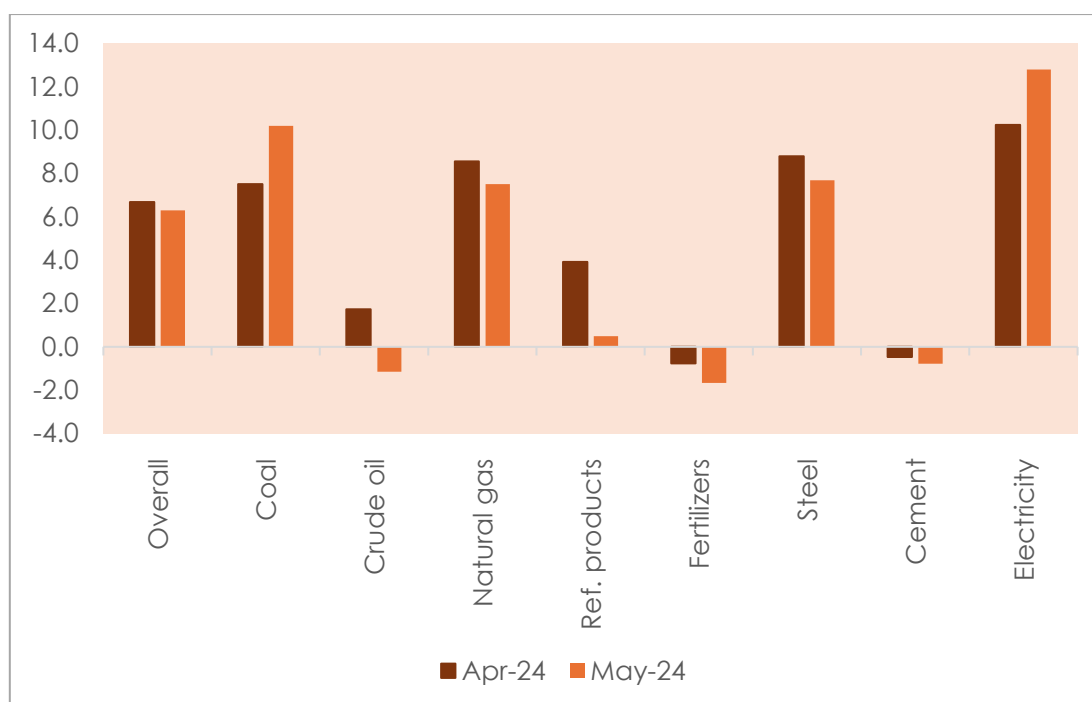
### **Outlook**

We continue to have a positive outlook on India's economic growth with real GDP projected to grow at 6.8% in FY25 (RBI forecast: 7.2%). An expectation of a recovery in private consumption through improved agricultural growth and better rural demand is driving the growth expectation apart from the steady rise in private sector investments in the manufacturing sector. Such a backdrop will support a sustainable growth in the core sector which we peg at 6.0% for FY25.

Says **Suman Chowdhury, Chief Economist and Head- Research** "The performance of the core sector in India continues to be healthy in the first quarter of the current fiscal year after a robust output growth of 7.5% in FY24. The annualized growth in eight core industries (ECI) stood at 6.3% as compared to 5.2% in May-23. The sequential growth has also been healthy at 3.7% MoM. The sectors which have driven the growth during the month include coal, natural gas and electricity. The pickup in power demand during the summer heat has led to a consistent rise in not just power output (12.8% YoY) but also in domestic coal output (10.2% YoY). Natural gas production also seems to be on a recovery path. Steel and cement output has been somewhat muted during the month which can be possibly attributed to two things (i) lower labour productivity in summer heat and (ii) lower market demand due to the upcoming monsoon season and the consequent slowdown in construction activities. Fertilizer output has also been virtually stagnant over the last 3 months reflecting weaker demand from the agricultural sector so far.

The strength of the core sector will continue to play an important role in the GDP growth of the current year which we have forecast at 6.8% in FY25."

**Chart 1: Monthly and cumulative output growth (%) in Core Sector in May 2024**



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## Media Contact:

Sahban Kohari  
Ph: + 91-9890318722  
[sahban@eminencestrategy.com](mailto:sahban@eminencestrategy.com)

## Analytical Contacts:

Suman Chowdhury  
Chief Economist & Head of Research  
Ph: + 91-9930831560  
[suman.chowdhury@acuited.in](mailto:suman.chowdhury@acuited.in)

Prosenjit Ghosh  
Group Chief Business Officer  
Ph: +91-9920656299  
[prosenjit.ghosh@acuited.in](mailto:prosenjit.ghosh@acuited.in)

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