

## Press Release

### **Core sector raises hopes of a GDP pickup in Q3** **Mining and steel sector bounces back, cement and electricity lagging**

**November 30, 2024**

October witnessed the core sector's growth improve for the second consecutive month, advancing by 3.1% compared to the revised 2.4% in September 2024, and the contraction of 1.6% in August 2024. Nevertheless, for the period of April to October this fiscal, core sector growth stood at 4.1%, a marked decrease from the 8.9% growth in the same period of the previous fiscal year which can be partly attributed to the high base factor. This is in line with the slowdown in GDP growth reported in Q2 of the current fiscal which dipped to a near two-year low of 5.4%, down from 8.1% in the same quarter last year.

The growth in eight core industries (ECI) in the previous month was driven by a strong performance in the coal sector as well as a notable uptick in steel and refineries. On the other hand, production of fertiliser, and cement showed signs of moderation while there was a marginal annualized growth in electricity output. India's crude oil and natural gas output continue to be constrained by structural challenges.

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

**Coal** production (weight: 10.33%) index marked an increase by 7.8% in Oct-24 versus Oct-23. From April to October 2024-25, the cumulative index saw an improvement of 6.2% compared to the same period in the previous year. Coal production increased by 7.4% to 84.45 million tonnes (MT) in Oct-24 up from 78.57 MT in Oct-23. In the April-October period of 2024-25, India's coal production grew by 6.1% to 537.45 MT compared to 506.56 MT during the same period last year. Coal is expected to remain a vital source of electricity generation in India for the foreseeable future, as the country boosts its coal-based capacity to meet rising power demand. India is planning to enhance its coal mining operations, with the Ministry of Coal also identifying key railway projects and implementing measures to improve the integration of coal transportation with end-use power plants.

**Cement** production (weight: 5.4%) for Oct-24 climbed to 3.3% over Oct-23, while the cumulative index recorded a 1.8% rise for the period April to October 2024-25 relative to the previous year's corresponding period.

The government's capital expenditure in the first half of FY25 has been on a slowdown mode, creating scope for rapid spending in the second half to meet the revised FY25 budget targets. This is likely to stimulate construction activity and benefit industries, such as cement and steel. Moreover, the industry is expected to see further gains from higher farm incomes, supported by favourable monsoons, strong kharif crop yields, and high reservoir levels facilitating rabi sowing. These factors are anticipated to boost rural

consumption, driving demand for cement in rural housing. At the same time, steady demand for urban housing under PMAY (Pradhan Mantri Awas Yojana) is expected to provide additional support to cement sales.

**Electricity** generation (weight: 19.85%) rose by 0.6% in Oct-24 as against Oct-23. The cumulative index experienced a 5.3% rise from April to October 2024-25 when compared to the same period in the previous year. India's power consumption increased slightly by ~1% to 140.47 billion units (BU) in Oct-24 compared to Oct-23. While a year-ago period, the power consumption grew by over 22% to 139.44 BU from 113.94 BU in Oct-22. The excess rains in some parts of India in Oct-24 has played a role in slowing down power demand and consumption, compared to Oct-23.

**Natural Gas** production (weight: 6.9%) saw a 1.2% reduction in Oct-24 as opposed to Oct-23. However, the cumulative index grew by 1.7% from April to October 2024-25 when compared to the corresponding period last year. India's natural gas production in Oct-24 was 3,110.61 MMSCM, reflecting a 1.6% YoY drop from 3,161.10 MMSCM in October 2023. Nevertheless, there was a 4.5% MoM rise from Sept-24 production of 2,976.79 MMSCM. In spite of the current situation, the Petroleum and Natural Gas Regulatory Board (PNGRB) is dedicated to building a robust ecosystem that encourages the widespread adoption of natural gas. Efforts are focused on supporting the transition to natural gas, recognizing it as a cleaner and more practical alternative for industries.

**Steel** production (weight: 17.9%) demonstrated 4.2% uptick in Oct-24 relative to Oct-23, while the cumulative index for the period spanning April to October 2024-25 exhibited 5.9% increase over the corresponding months of the previous year. In Oct-24, crude steel production increased by 4.0% on MoM basis, while finished steel production saw a 4.1% MoM rise. India's steel exports saw a notable 11% MoM surge in Oct-24, signalling an improved global demand scenario. Conversely, imports fell by 4% compared to the previous month, which is expected to support higher prices for domestic steel producers at the start of the third quarter. This decline in imports follows government restrictions on imports from other countries. Overall, steel production is anticipated to sustain a healthy growth, bolstered by government spending on large-scale infrastructure projects like highways, ports, and railways. Additionally, rising urbanization and a boom in construction activities are further driving demand for steel products.

**Crude Oil** production (weight: 8.98%) for Oct-24 experienced a 4.8% drop vs Oct-23. Over the period from April to October 2024-25, the cumulative index declined by 2.5% relative to the corresponding period of the previous year. In Oct-24, India's crude oil production reached 2.4 million metric tonnes (MMT), marking a 4.90% YoY decline compared to the 2.5 MMT produced in Oct-23. However, there was a 3.55% MoM increase, as production was 2.3 MMT in Sep-24, signalling a recovery. Crude oil imports increased by 4.2% in October 2024 and by 3.5% during the April-October FY 2024-25 period, compared to the previous year. Overall, indigenous crude oil production continues to be stagnant.

**Petroleum Refinery** production (weight: 28.0%) grew by 5.2% in Oct-24 against Oct-23. Cumulative index climbed to 2.7% during the period from April to October 2024-25 over the corresponding months of the previous year. India's petroleum refinery production in Oct-24 totalled 22.9 MMT, showing a 5.2% YoY growth compared to 21.8 MMT in Oct-23 along with 1.04% MoM rise from Sep-24 production of 22.8 MMT. In October 2024, exports of petroleum products went up by 12.7%, and for the April-October period of FY 2024-25, there was a 4.2% surge in relation to the previous year.

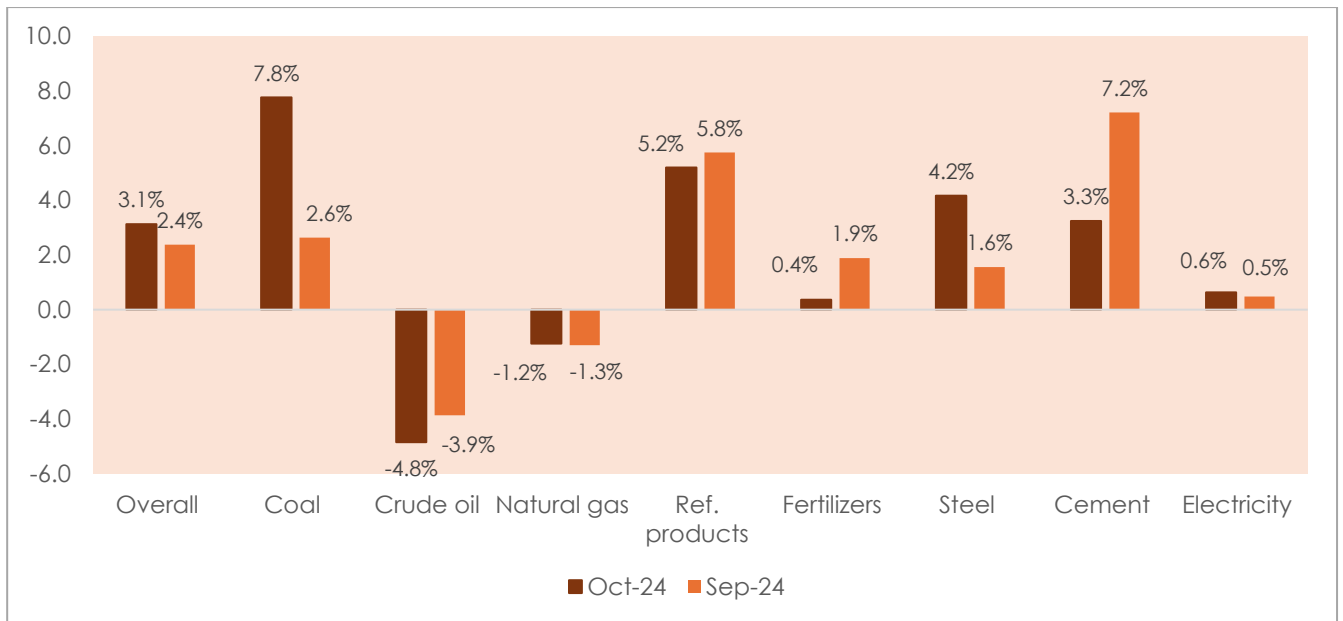
**Fertilizer** production (weight: 2.6%) recorded a 0.4% increase in the index in Oct-24 compared to Oct-23. From April to October 2024-25, the cumulative index rose by 1.5% over the corresponding months of the previous year. The subsidy budget allocation for FY 2024-25 is Rs 1.68 Lakh Cr, with Rs 13,135.35 crore spent on fertilizer subsidies in October 2024. India imports 60% of its DAP supply, with domestic production reliant on imported raw materials. The Department of Fertilizers has taken steps to ensure adequate supplies for the Rabi 2024-25 season, with domestic DAP (Di-ammonium Phosphate) and NPK (Nitrogen, Phosphorus, and Potassium) production to remain at optimal levels.

Says **Suman Chowdhury, Chief Economist and Executive Director, Acuite Ratings & Research** "Core sector growth has recovered to 3.1% YoY in Oct-24 after a dismal Q2 (Jul-Sep'24) where it slowed down to 2.3%. One of the key segments that continue to constrain overall core output is the flattish trend in electricity generation which can be attributed to late monsoon rains and the higher base of the previous year.

There was a healthy revival in the coal, refinery and steel production in the previous month, reinforcing the expectations of a pickup in industrial activity in Q3/Q4 after a unexpectedly weak performance in Q2.

Given the base factor, the growth in core sector is set to moderate in the current fiscal but we expect it to improve to 4.5%-5.0% from the 4.1% YoY print seen in the Apr-Oct'24 period."

**Chart 1: Core Sector Growth YoY%: Oct-24 vs Oct-23**



## About Acuité Ratings & Research Limited:

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