Press Release

# Partial recovery in core sector growth

**Cement and refinery products better performers in Sep-24**

**October 31, 2024**

In September 2024, India's core sector growth bounced back to 2.0% YoY, recovering from a 42-month low of an 1.6% (revised) contraction YoY in August. On a cumulative basis, the performance of the eight core industries was weaker in H1 FY25, showing a growth of 4.2% compared to 8.2% in H1 FY24 which can be partly attributed to the base effect.

On a cumulative basis in the first half of the fiscal, the annual output growth saw positive gains in Cement, Refinery Products, Coal, Fertilizers, and Steel. In contrast, the crude oil sector experienced a decline of 3.9%. Steel consumption remained healthy in the first half of the year, growing by 13.4%, slightly down from the 14.9% growth recorded in H1FY24. Meanwhile, power consumption and natural gas production were subdued during the first half, partly influenced by excessive rains.

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

**Coal** production (weight: 10.33%) rose by 2.6% in Sep-24 over Sep-23. While its cumulative index grew by 5.9% from H1 FY25 compared H1 FY24. In Sep-24, coal production marked a growth of 2.5% by reaching 68.9 million tons, surpassing last year's 67.2 million tons for the same month. In the first half of FY25 coal production hit 453.0 million tons, surpassing the 427.9 million tons recorded in H1 FY24, representing a 5.8% increase. Coal consumption also increased due to limited hydropower and high electricity demand. Overall global coal demand is projected to remain stable through 2024 and 2025, with rising electricity consumption in major economies offsetting growth in renewables and a recovery in hydropower resulting in further increase in coal production.

**Cement** production (weight: 5.4%) increased by 7.1% in Sep-24 compared to Sep-23. For H1 FY25 the cumulative index however increased modestly by 1.6% over H1 FY24. In fiscal 2025, cement production experienced notable cost savings in power and fuel as companies actively increased their use of green energy and alternative fuels. Various cost-efficiency measures and falling fuel prices helped mitigate the impact of weak realizations.

**Electricity** generation (weight: 19.85%) fell by 0.5% in Sep-24 against Sep-23. However, the cumulative index increased by 5.9% from H1 FY25 compared H1 FY24. India's power demand fell in August for the first time in over 15 months and continued to decline in September, albeit at a slower rate. This was due to above-normal rainfall, which reduced overall demand, boosted hydropower's share and increased coal stockpiles.

September electricity demand decreased by about 0.3% YoY to around 141 billion units (BU), while rising 5.4% for the April-September period. Hydropower's share rose to 15%, and coal's share fell to 65%. Overall power generation is estimated to have increased by ~2.0% YoY to around 152 billion units (BUs).

**Natural Gas** production (weight: 6.9%) showed a decline of 1.3% in Sep-24 versus Sep-23. However, the cumulative index experienced a 2.0% increase during the H1 FY25 compared to the previous year. Natural gas production was 2,977.0 MMSCM in Sep-24, down 1.6% from 3,026.6 MMSCM a year earlier. Cumulative production for the first half of FY25 reached 18,160 MMSCM, reflecting only 2% growth, which is below targets. So far, production has not kept pace with domestic consumption, remaining stagnant, despite government efforts affecting gas companies. In Sep-24, import dependency increased to 49.7%, up from 46.5% a year earlier. For H1 FY25, reliance on imported natural gas rose to 51.5%, compared to 46.8% in H1 FY24. Stabilized natural gas prices further facilitated higher imports. The Sep-24 import bill was $1.2 billion, up from $1.1 billion in Sep-23, while H1 FY25 saw the import bill rise by 18.5% to $7.7 billion, compared to $6.5 billion in H1FY24.

**Steel** production (weight: 17.9%) recorded a 1.5% rise in Sep-24 over Sep-23, with the cumulative index also up by 6.1% from H1FY25 compared to the same timeframe last year. In the first half of FY25, crude steel production grew by 3.70% compared to the same timeframe last year. Finished steel production also rose, showing an increase of 5.10%. Notably, steel consumption saw a substantial surge, with a 13.66% increase over the previous year. Global crude steel production totalled 143.6 million MT in Sep-24, reflecting a decrease of 4.7% YoY and 0.7% MoM. The global steel industry is facing challenges from high interest rates, declining investments, weak demand, and rising trade restrictions. These factors have led to production declines in China and Japan, with India also experiencing a 0.2% YoY drop. However, India's cumulative production from January to September increased by 5.8%, reaching 110.3 million MT.

**Crude Oil** production (weight: 8.98%) saw a 3.9% reduction in Sep-24 compared to Sep-23, with the cumulative index also down by 2.1% from April to September 2024-25 compared to the corresponding period last year. India's crude oil production fell in Sep-24, with indigenous output at 2.3 million metric tonnes (MMT), a 4% decline from last year. As domestic production stagnated, reliance on imported crude oil increased, continuing a trend seen over the past few years, barring FY21 during the COVID-19 pandemic. The PPAC reported a 6.5% rise in crude oil imports in Sep-24, totalling $10.6 billion. For H1FY25, imports increased by 3.9%. Average crude oil prices in September 2024 were $74.33 per barrel, down from $94 a year earlier, further boosting imports. This heavy reliance on imports makes the Indian economy vulnerable to global oil price fluctuations, affecting the trade deficit, the rupee's on-going stability, and inflation.

**Petroleum Refinery** production (weight: 28.0%) marked a 5.8% increase in Sep-24 over Sep-23. The cumulative index increased by 2.3% from H1 FY25 relative to the same period last year. Production of petroleum products surged to 22,727.0 MMT in Sep-24, registering a 5.8% increase from 21,475.6 in Sep-23. Refinery production accounted for

22.4 MMT, while fractionator output was 0.3 MMT. Increased domestic demand for fuel and energy led refineries to boost production. Additionally, the stability of crude oil prices during this period likely encouraged refineries to optimize their production schedules.

**Fertilizer** production (weight: 2.6%) experienced a 1.9% growth in Sep-24 relative to Sep-23. The cumulative index also grew by 1.7% from H1 FY25 compared to H1 FY24. In Sep-24, India's fertilizer showed an increase in production due to various factors, including favourable weather conditions, increased demand from the agricultural sector, and enhanced production capacities at manufacturing facilities. The government's focus on improving fertilizer availability to support farmers further contributed to the boost in production during this period.

Says **Suman Chowdhury, Chief Economist and Executive Director, Acuité Ratings & Research** "India's core sector output has seen a moderate recovery to 2.0% YoY in Sep-24 after an unexpected contraction by 1.8% YoY in Aug'24. Among eight core segments, electricity along with crude oil and natural gas continue to show an annualized contraction in output. The lower output in electricity can be largely attributed to excess rains and lower power demand in the month of Sep-24. Among the other segments, cement output has seen a healthy rise of 7.1% YoY. In the first six months of the fiscal, core sector growth has significantly moderated to 4.2% YoY.

We expect the core sector output to pick up significantly from Oct'24 with an acceleration in government spending on infrastructure projects. Nevertheless, we expect a moderation in sector growth to 4.5%-5.0% in FY25 compared to 7.6% in FY24. This will also have an impact on industrial output which is set to grow at a slower rate of around 5.0% in the current year. While we continue to stick to our forecast of 7.0% GDP growth for the current year, the economic indicators for Q2 have increased the downside risks on that forecast."

**Chart 1: Core Sector Growth: H1 FY25 vs H1 FY24**

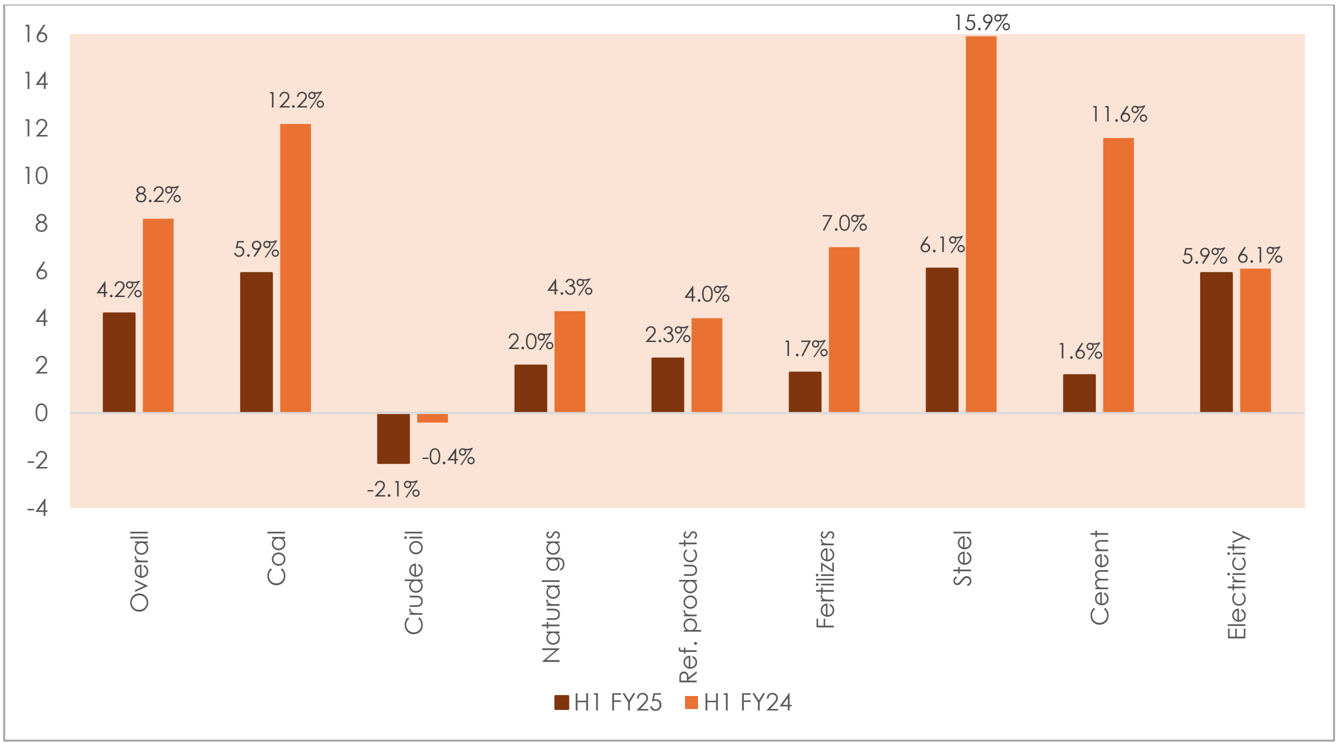
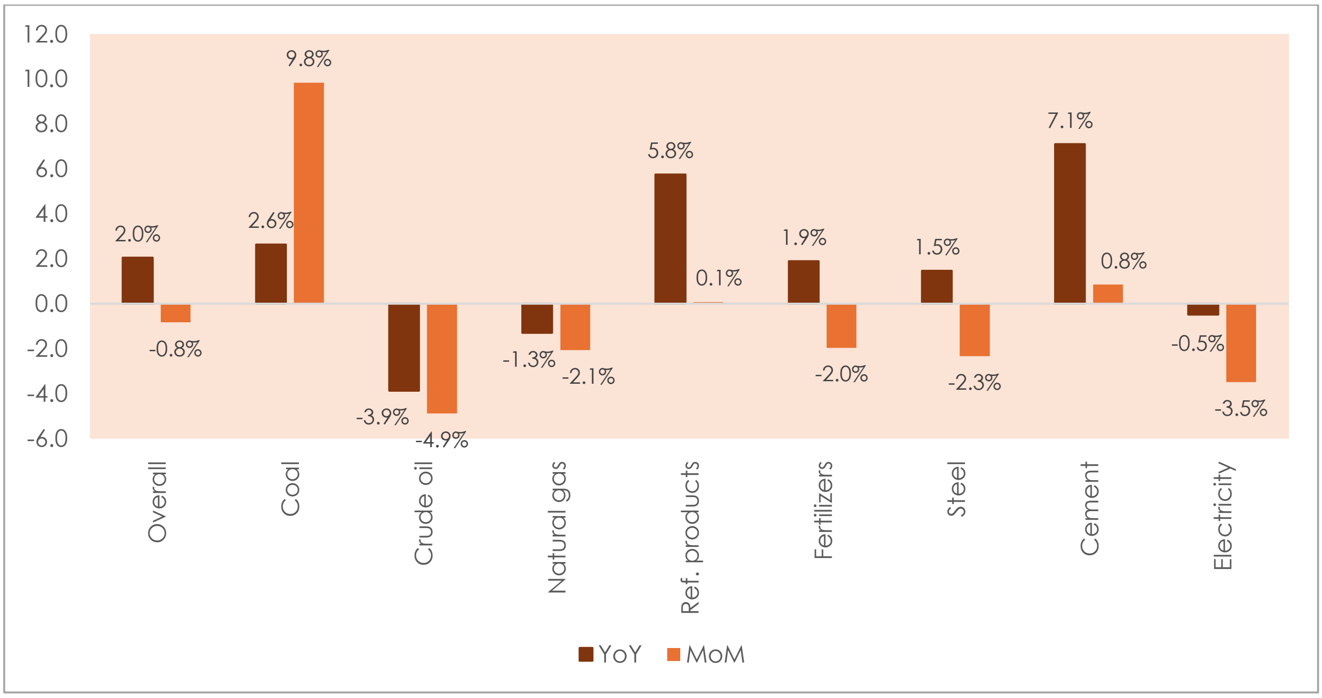



**Chart 2: Output growth for Core Sector in September 2024**



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