## Press Release

# Core Sector adds to India's robust GDP growth

**Solid 7.5% core output growth in FY24 driven by Coal, Steel, Cement and Power**

**May 1, 2024**

The combined Index of Eight Core Industries (ECI) which reflects the core sector output in India, has reported a growth of 7.5% in FY24. Excluding the last two post-Covid years i.e FY22 and FY23, where the growth prints have been perked up by the base factor, this has been the highest growth rate in the current series (base year: 2011-12). Rapid public investments in India's infrastructure is the primary factor behind such an outperformance in the core sector. Except for the oil and the fertilizer industries, all the others have delivered high single or double digit annualized growth in FY24.

While the growth figure for Mar-24 at 5.2% YoY as compared to 7.1% YoY in Feb-24 tend to suggest a moderation, one needs to look at the industrial data through a wider time period. The print for Mar-24 also is higher than the 4.1% YoY in Mar-23. Without much of base support, the output growth in Q4FY24 stood at 5.4% YoY. Despite the buoyancy in the key four industries – coal, steel, cement and power, the overall core sector continues to be partly constrained by lacklustre crude oil, refinery products and fertilizer output – these three industries had low single digit growth in both Q4 and in the whole of FY24.

Clearly, the drivers of Core Sector growth in FY24 were these four industries – steel leading the pack at 12.3%, followed by coal at 11.7%, cement at 9.1% and electricity at 7.0%. All these industries have a high linkage with the infrastructure sector and the ongoing projects across the country. Even in the last quarter of the year where the base advantage was not material, the growth YoY in these industries were 7.7%, 10.1%, 8.5% and 7.0% respectively.

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

• **Coal** production (weight: 10.33%) increased by 8.7% in March 2024 over 12.1% in March 2023. The cumulative output rose by 11.7% during Apr-Mar'24 over the corresponding period of the previous year. Captive and commercial coal blocks produced 147 million tonne coal in fiscal year 2023-24, registering a YoY growth of 27% apart from the output growth in Coal India (PSU) and its subsidiaries. The surge in coal production not only bolsters India's energy security and reduces forex outflows but also stimulates industrial development.

• **Cement** production (weight: 5.37%) saw the highest annualized growth of 10.6% among the eight segments in Mar-24. The cumulative cement production rose by 9.1% YoY for the Apr-Mar'24 period, higher than the 8.7% in the previous year. Strong cement demand from the infrastructure projects and a revival in real estate development activity have led to strong volume growth in FY 24.

• **Steel** production (weight: 17.92%) witnessed a growth of 5.5% YoY in the month on the base of a 12.1% growth in Mar-23. The annual output growth increased to 12.3% in Apr-Mar'24 vs 9.3% in last fiscal. Among the eight core sectors, steel has seen the highest growth in FY 24 driven by buoyant demand from the infrastructure as well as the automotive sector.

• **Natural Gas** production (weight: 6.88%) expanded by 6.1% YoY growth in March 24. The cumulative index for natural gas also rose to 6.1% YoY in FY24 as compared to a mute 1.6% in FY23. India's demand for gas is on the rise on the back of its status as a cleaner fuel both for household and industrial purposes and it's important that domestic gas sources are harnessed to the extent feasible.

• **Fertilizer** production (weight: 2.63%) witnessed a decline of 1.3% in March 24 as compared to 9.7% YoY in the same month of the previous year. This is the third consecutive month in FY24 when fertiliser output has seen a contraction. However, its cumulative output has risen by 3.7% YoY during FY24 as a whole. The weakness in fertilizer output can be largely attributed to the impact of El Nino and the deficient rainfall in both the kharif and rabi seasons.

• **Petroleum Refinery** production (weight: 28.04%) declined by 0.3% in March 2024 over a modest 1.5% growth in March 2023. Its cumulative index increased by 3.4% YoY only during FY24 vs 4.8% in FY23. Given the high weightage of the refinery sector in India, its weak output has a notable impact on the overall core index. The volatility in global crude prices due to geo-political events and slowdown in global demand have led to lower export demand and a downtrend in petroleum product exports from India

• **Crude Oil** production (weight: 8.98 per cent) increased by 2.1% in Mar-24 over a decline of 2.9% in Mar-23. Its cumulative index increased by 0.6% during 2023-24 as against a contraction in output in the previous years. Low and declining domestic crude output against steadily increasing domestic demand imply high dependence on imports and thereby, higher macroeconomic risks.

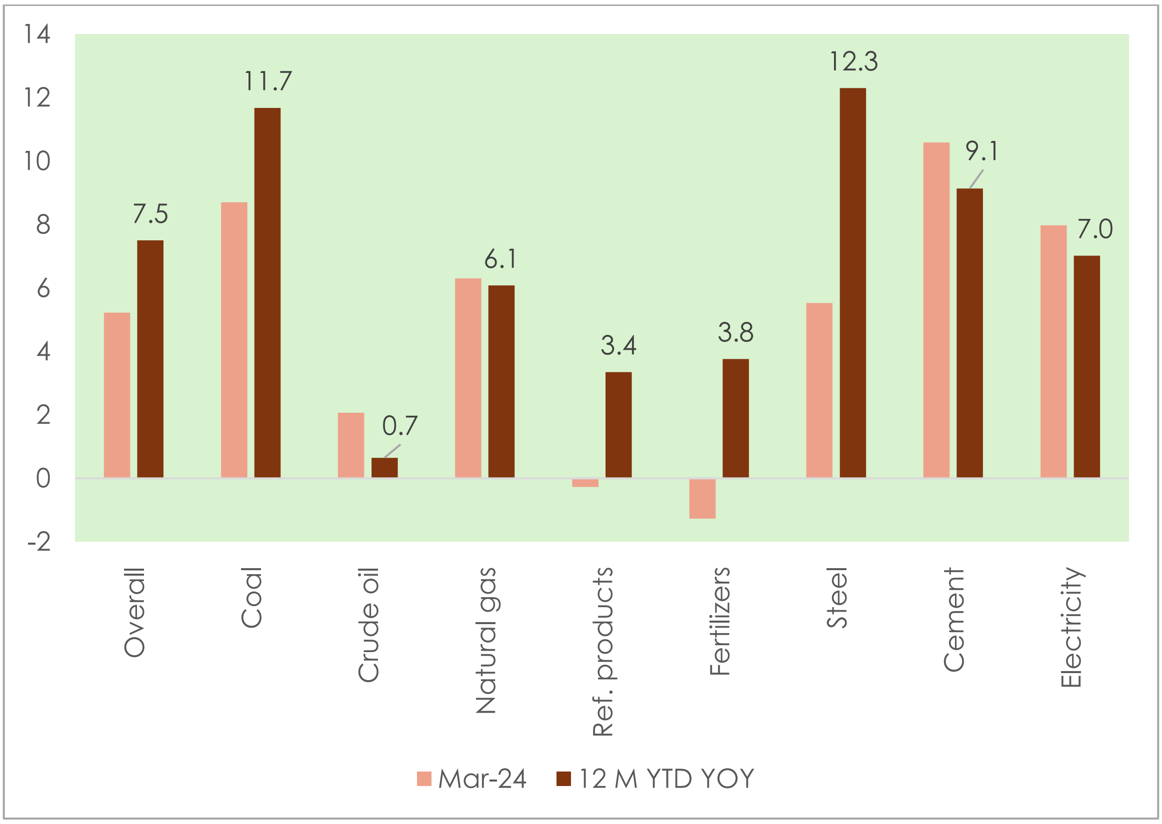
• **Electricity** generation (weight: 19.85%) increased by 8.0% in March 2024 over a decline of 1.6% March 2023. Higher demand of power from the household and the commercial sector due to warmer weather have been a factor behind higher power output during the summer months although the average temperatures in March has been relatively mild in North India. The cumulative output increased by 7.0% during FY24 over 8.9% in FY23.

Says **Suman Chowdhury, Chief Economist and Head – Research** "It's all about the CORE. Mar-24 data for the eight core industries (ECI) further confirms our view that the core sector has been a key driver of the Indian economy in FY24 and is likely to remain one in FY25 as well. While the annualized growth print for the month has apparently slowed down to 5.2% from 7.1% in Feb-24, the cumulative growth in core output in the fiscal stood at a robust 7.5% on the back of a 7.8% growth in FY23. With the consistent focus on ramping up public infrastructure spend, most of the core industries except the oil and gas segment have got an impetus which is beyond the usual cyclicality in the sector.

The key industries which has boosted the output of the core sector in FY24 are – steel, coal, cement and power. The weighted growth in these four core industries amounted to 9.90% during the year and if it were not for the weak output in crude oil and refined petroleum production, the reported core sector growth would have been closer to double digits.

The priority given to enhance indigenous coal production vs imports and the increasing demand for power have led to a 11.7% rise in coal production in the previous year. Steel production has been particularly buoyant at 12.3% YoY followed by cement at 9.1% YoY, accelerated by the demand from the infrastructure sector. This trend is likely to sustain in the current year and help GDP growth to remain elevated between 6.5%-7.0% in FY25."

**Chart 1: Monthly and Cumulative output growth% in Core Sector in March 2024**



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**Media Contact:**


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|---|
| Sahban Kohari<br>Ph: + 91-9890318722<br>sahban@eminencestrategy.com |


**Analytical Contacts:**


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| Suman Chowdhury<br>Chief Economist & Head of Research<br>Ph: + 91-9930831560<br>suman.chowdhury@acuite.in | Prosenjit Ghosh<br>Group Chief Business Officer<br>Ph: +91-9920656299<br>prosenjit.ghosh@acuite.in |