

Consumption First; Private Capex Next?



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Executive Summary

- Over the past few months, India has faced multiple headwinds, primarily driven by geopolitics and wars, resulting in FII outflows of USD9b between Jul and Sep'25. Domestically, urban consumption was relatively muted due to high interest rates, low liquidity, and lower growth in the IT and banking sectors. To counter the weakening demand, the RBI cut policy rates by 100bp to 5.5%, reduced the CRR rate by 150bp to accelerate rate transmission, and added systemic liquidity of nearly INR9t in the banking system through daily and permanent operations, including FX swaps, OMOs, CRR cut, VRR/VRRRs. Moreover, the government frontloaded capex spending and reduced income and GST tax rates. While it is still early to assess the full impact of this monetary and fiscal push, early indicators appear to be positive. Auto retail sales surged to a record high toward the end of Sep'25. Vehicle registrations rose 34% to 1.16m units, driven by significant growth across PVs, 2Ws, CVs, and tractors.
- We believe this marks the beginning of a turnaround in India's domestic growth momentum, despite ongoing external sector risks. We expect domestic consumption to pick up significantly in 3QFY26, paving the way for a robust revival in the private capex cycle.
- Private capex complements consumption, albeit with a lag of two quarters. We observe that sectors like Power T&D, Coal, Telecom, Oil & Gas, Ports, Cement, Airlines, Defense, and Electronics are already expanding capacities, positioning themselves to seize opportunities in the next phase of growth. These core sectors, in our view, are driven not by cyclicity but by the structural changes unfolding in aspirational India.
- It is important to note that this leg of growth is NOT funded by banking credit. Instead, it is supported by external funding, IPOs, QIPs, and, more importantly, corporate debt.
- With the RBI's October policy easing regulatory measures for banks and NBFCs, credit flow within the system is expected to accelerate, potentially driving further increases in planned capital spending.
- To identify a trackable indicator, monitor high-frequency auto registrations, sales figures, and dealer channel checks.

Overview

India's growth outlook has improved, supported by domestic monetary, regulatory, and fiscal policy levers:

1. The RBI has raised its FY26 GDP forecast to 6.8% from 6.5% in its October policy. We believe FY26 GDP could reach 7% if US tariff rates are reduced to at least 25% from the current 50% by November.

- Real GDP growth for 1QFY26: 7.8% (130bp higher than the RBI estimate; 100bp higher than the market consensus). 2QFY26 could also positively surprise the markets, supported by a favorable base and low deflator.
- Note that the strong growth in 1Q and 2Q is driven by more than just a low base and subdued deflator. Services (defense/government spending, BFSI, realty, travel, tourism) and agriculture & allied activities (rural consumption) were two strong domestic pillars of growth in 1QFY26. 2QFY26 is expected to be supported by a favorable monsoon, government spending, and frontloading of exports to the US. However, the impact of the 50% US tariffs will likely begin to slow exports from 3QFY26.
- We concur that **nominal GDP growth** slowed to 8.8% in 1QFY26 vs. 10.8% in 4QFY25 as the GDP deflator eased to 0.9% YoY from 3.1% in 4QFY25. This deflator issue is expected to continue through FY26, with both CPI and WPI being low. Consequently, the disparity between GDP data and weak high-frequency indicators (auto sales, diesel consumption, IIP, exports) is likely to continue. Our **nominal GDP estimate for FY26 stands at 9%.**

2. Center capex + state capex = INR6.6t in 5MFYTD26.

In 5MFYTD, the center's capex grew by a strong 43% YoY to INR4.3t (38.5% of BE). For the 20 states analyzed, capex increased 10.1% YoY to INR2.2t (21.6% of BE). Although state capex is progressing slower than the center's (likely due to recent procurement digitalization changes under the GFR 2025 rules), it is expected to pick up momentum soon.

3. Major tax overhauls: a) GST reform (Sep'25); b) income tax cut (Feb'25).

Engines of growth within private capex

Two engines of policy easing:

1. Monetary policy push and regulatory changes: CRR cut by 150bp and repo cut by 100bp (expect further 50bp); surplus liquidity averaging INR2.5t on a daily basis in 2QFY26; FX swaps and OMOs; risk weight reductions on lending by banks to MSMEs/real estate/NBFCs; domestic banks to fund M&As by Indian corporates; regulatory easing for NBFCs (especially reduced risk weights for infrastructure lending); changes in the ECL framework for banks; LAS (loans against shares) for banks; and higher IPO funding limits for banks.
2. Fiscal push: Income tax; GST rejig; frontloaded capex spend; support packages for MSMEs (including a potential increase in credit guarantee limits for MSMEs impacted by trade tariffs); 3% DA increase for government employees under the 7th pay commission starting from Jul'25; and upcoming 8th pay commission hike effective Jan'26.

- Private capex complements consumption, albeit with a lag. Businesses typically invest only after observing clear signs of demand pickup. Assuming domestic demand begins to rise significantly from 2HFY26, capex is expected to follow with a lag of two quarters. With policy reforms currently focused on boosting consumption, the next phase of recovery is likely to emerge from private capex activity.
- India's current capex/GDP ratio stands at ~30%, below the 2004-08 peak of ~35%. The investment outlook for private players remains muted (geopolitics, export slowdown, and demand uncertainty).
- We have identified sectors driven by structural drivers - **Power T&D, Coal, Telecom, Oil & Gas, Ports, Cement, Airlines, Defense, Electronics**.
- To assess private capex sectoral opportunities, we have analyzed FY26 capex guidance from NSE 500 companies, management commentaries, financial data from banks, ECBs, and corporate debt to validate sector-wise investment momentum.

Insights on private capex

As a precursor to our detailed analysis, here are some significant takeaways :

- **Fact:** India is targeting sustained real GDP growth of 7-8%.
Insight: Core sectors like metals, cement, coal, and power are already expanding capacity in anticipation of future demand.
- **Fact:** The top five sectors (Oil & Gas, Coal, Power, Auto, Telecom) drive 80% of private capex.
Insight: Auto sector weakness is a key drag on capex; reviving demand in this segment could boost overall capex.
- **Fact:** Power utilities and transmission & distribution (T&D) networks are set for large-scale capacity upgrades.
- **Insight:** The power sector benefits from both healthy corporate balance sheets and strong bank credit support. The power sector within infra received 40% of the total credit sanctioned by banks/FI in FY25. This trend has continued into FY26.
- **Fact:** Corporate balance sheets are strong.
Insight: Sectors that are undertaking capacity expansions also have strong B/S. Hence, fewer corporations are seeking bank credit. Industrial credit growth slowed to 5.9% in FYTD26 vs 8.9% in FYTD25, but sectors like electronics, power, and metals continue to see healthy credit demand.
- **Fact:** ECBs were a preferred capital-raising route last year.
Insight: Sectors that benefited include data centers, renewables, chemicals, and electronics.
- **Fact:** The highest IPO proceeds were raised in 2024.
Insight: IPO activity remains strong this year in electronics, power, engineering, and IT despite global uncertainty.
- **Fact:** The corporate debt market is gaining traction.
Insight: Gross corporate debt issuance exceeded repayments in 2Y, possibly highlighting bond issuance as an alternate source for capex funding.

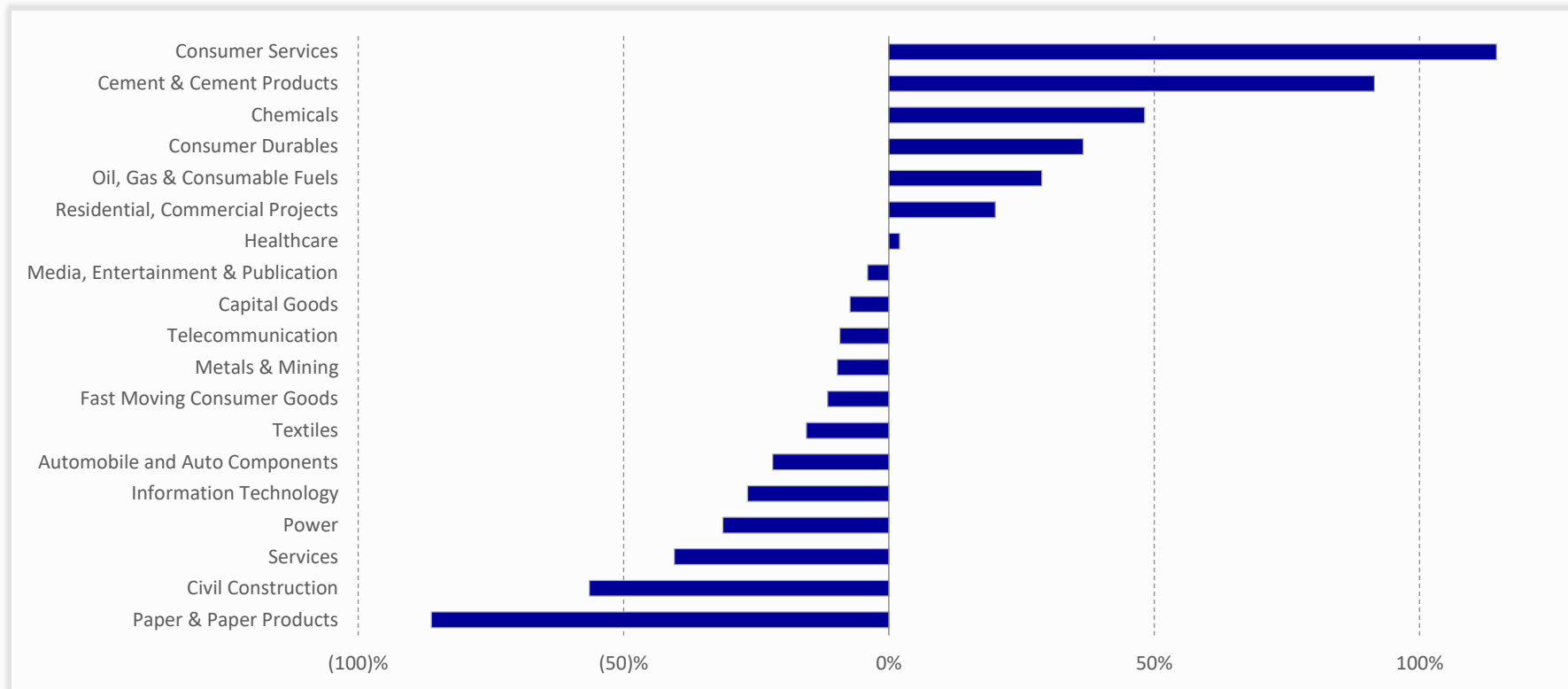
Two sectors contribute 50% to India's private capex – Power & Utilities

Capex by sectors (INR b)

Capex by Sectors (INR b)	Average Capex (2011-20)	Average Capex (2022-25)	Consensus Estimate 2026	Avg Share (2011-20)	Avg Share (2022-25)	FY26 share	Growth (2026 over 2022-25)	Incremental contribution to growth 2022-25	Growth (2026 over 2025)	Incremental contribution to growth 2026
Oil, Gas & Consumable Fuels	1,245	2,475	2,829	34.9%	42.1%	35.2%	14	53.3	(0)	16.3
Power	512	582	1,252	14.4%	9.9%	15.6%	115	3.0	51	30.9
Metals & Mining	549	830	1,055	15.4%	14.1%	13.1%	27	12.2	(-5)	10.4
Telecommunication	323	470	681	9.1%	8.0%	8.5%	45	6.3	17	9.8
Auto & Ancillaries (excl. Tata Motors)	202	347	413	5.7%	5.9%	5.1%	19	6.3	(7)	3.0
Cement & Cement Products	74	231	370	2.1%	3.9%	4.6%	60	6.8	23	6.4
Healthcare	127	206	229	3.6%	3.5%	2.8%	11	3.4	(10)	1.1
Chemicals	56	125	159	1.6%	2.1%	2.0%	27	3.0	23	1.5
Capital Goods	73	113	181	2.1%	1.9%	2.2%	61	1.7	18	3.0
IT	91	101	173	2.6%	1.7%	2.2%	71	0.4	59	3.3
FMCG	62	89	98	1.8%	1.5%	1.2%	9	1.2	(4)	0.4
Services	80	80	248	2.2%	1.4%	3.1%	212	(0.0)	154	7.8
Civil Construction	90	62	78	2.5%	1.1%	1.0%	26	(1.2)	23	0.7
Consumer Services	16	53	85	0.4%	0.9%	1.1%	61	1.6	16	1.5
Consumer Durables	22	47	52	0.6%	0.8%	0.7%	11	1.1	(3)	0.2
Residential, Commercial Projects	19	35	99	0.5%	0.6%	1.2%	185	0.7	143	3.0
Textiles	12	16	27	0.3%	0.3%	0.3%	71	0.2	35	0.5
Media, Entertainment & Publication	9	13	13	0.3%	0.2%	0.2%	(0)	0.2	34	(0.0)
Paper & Paper Products	5	1	0	0.1%	0%	0%	(76)	(0.2)	(88)	(0.0)
Total	3,568	5,875	8,042				37	100	12	100

Emerging sectors for capex: ECom, Diversified Retail, Hotels

Delta shift in capex: Traditional vs emerging sectors (2011–20 vs 2022–25)



Source: CEIC, MOFSL Research

Power, Utilities, Oil & Gas, Ports, Airlines to lead capex growth

- According to street consensus, FY26 NSE 500 capex is expected to grow 11.6% YoY to INR8.0t (FY25: INR7.2t). Focusing on core sectors with structural drivers, growth is expected at 23%, reaching INR6.3t (FY25: INR5.1t).
- Sectors contributing the most to private capex include oil & gas, coal, power T&D, telecom, and auto.
- We have divided sectors into four quadrants based on the size of their capital spending.

Big sectors, big capex – INR4.0t (20% YoY)

- ❖ Power Generation/Utilities/ T&D
- ❖ Coal
- ❖ Telecom
- ❖ Oil & Gas
- ❖ Auto

Small sectors, big capex – INR0.5t (52% YoY)

- ❖ Defense
- ❖ Cap goods
- ❖ Carbon black
- ❖ Pesticides
- ❖ Agrochemicals
- ❖ Fertilizers
- ❖ Textiles
- ❖ Ecom
- ❖ Industrial Minerals
- ❖ Civil Construction
- ❖ Speciality chemicals
- ❖ Zinc
- ❖ Realty & Data Centre

Big sectors, small capex – INR1.8t (24% YoY)

- ❖ Aluminum
- ❖ Cement
- ❖ Airlines
- ❖ Ports
- ❖ Pharma/Hospitals
- ❖ Iron & Steel
- ❖ Aluminium
- ❖ IT

Small sectors, small capex

- ❖ Cables
- ❖ Retail
- ❖ Restaurants
- ❖ Hotels
- ❖ Footwear
- ❖ FMCG
- ❖ Sugar
- ❖ Logistics
- ❖ Media

Big sectors, big capex: Power, Coal, Auto

Power Generation/Utilities/T&D

- These sectors are witnessing increased T&D spending across India. Capex is rising across renewables/hydro/offshore wind/thermal power (JSW, NTPC, Adani Power, Tata Power).
- **Generation & Utilities (JSW Energy, BHEL, Torrent Power):** Capex is expected to grow 70% YoY to INR1.3t
- **Transmission & Distribution (T&D) (PGCL, Apar Industries, GE Vernova):** Capex is expected to rise 155% YoY to INR0.2t

Coal India: The company is leading the sector with 40% capex growth (INR0.2t). FY25 saw subdued growth. The company is expanding capacities in FY26 by re-opening 32 defunct mines, launching up to five new opencast mines through PPP, and issuing tenders to construct 5 GW of renewable capacity—3 GW solar and 2 GW wind.

Telecom

- Maintenance capex remains the focus. With FPO funds exhausted, Vi is relying on internal cash and non-bank financing to drive its capital expenditure, especially amid unresolved AGR issues (a bank raise is in process, but nothing has been confirmed yet). Meanwhile, Airtel continues to prioritize maintenance capex following the completion of its 5G rollout. It is also allocating capital toward data center investments.
- The total sector capex is expected to rise ~INR100b in FY26 to INR0.7t (**Vodafone:** +73% YoY (INR73bn); **Airtel:** +9% YoY (INR32b)).

Oil & gas

- The sector anticipates aggressive capacity expansion, driven by higher demand (green energy, crude oil, NG demand to double by 2040) (Oil India, GAIL).
- Capex is expected to rise 14% to INR1.5t (excl. RIL, CIL) (GAIL, Gujarat State Petronet, IGL, BPCL, HPCL, Petronet LNG Ltd).

Auto & Auto Ancillaries (ex-Tata Motors): OEM capex growth remains flat; capex of tire companies is likely to grow 38% to INR70b.

- Tire companies (replacement segment: Apollo: +98% YoY; JK: +45%), EVs and tractor segments are witnessing capex growth. Larger segments like CV and PV are witnessing a slowdown. OEMs' capex is expected to pick up after the rundown of inventory. The sector stands to benefit significantly from the GST cut.

Big sectors, small capex: Cement, Airlines, Ports

Cement

- Healthy expansion by all companies in anticipation of strong demand in the next 2-3 years; cash-rich B/S (more equity, less debt)
- Capex to rise 25% to INR0.3t (Ambuja, UT)

Airlines (InterGlobe Aviation): Sharp increase in capex to INR0.1t, focused on leasing aircraft and adding international routes

Ports

- Expansion of port infra, acquisition of additional fleet, and growth in logistics business; over 300% surge in sector capex to INR0.1t
- **Adani Ports:** 576% YoY (INR0.1t); ‘transforming company into integrated transport utility company... rail, terminals, ICDs, warehouses, agri-logistics, and now trucking’ – Ashwani Gupta, CEO (Adani Ports)
- **JSW Infra:** 154% to INR52b; Gujarat Pipavav: >200% YoY (INR3b)

Aluminum/iron and steel

- Maintenance capex continues as aluminum realizations remain under pressure from Chinese exports and global surplus. Newer segments, like Specialty Alumina, remain relatively small. Funding: Internal accruals (~80%) + debt
- Capex to rise 7.3% to INR0.4t (Vedanta, Hindalco: US subsidiary Novelis led capex on aluminum recycling, National Aluminum Co. Ltd)

IT

- Maintenance capex across Tier-1, Tier-2 companies; tariff/global trade-led uncertainty remains a key risk, driving lower headcounts
- Only Coforge (IT) and Anant Raj (Realty) have announced data center-driven fresh capex; several unlisted players announcing capex in this space

Small sectors, big capex: Defense, Cap Goods, Agro/Specialty Chemicals (1/2)

Defense

- Sharp increase in orders within India as well as outside (drones, aircraft, explosives)
- 95% YoY capex growth to **INR64b** (Hal; Zen Technologies); Industrial & Defense Explosives – 140% YoY to INR24b (Solar Industries)

Cap goods

- **Mixed capex performance.** Companies entering newer segments; traditional segments stagnant. Strong sub-segment growth in castings & forging (AIA Eng.), **Electrodes & Refractories (HEG)**, heavy electrical equipment (Triveni Turbine), industrial products (Honeywell automation)
- 18% YoY capex growth to INR41b

Civil construction

- Afcons/ IRB-ECB; Kalpataru/KEC – Internal accruals
- IRB Infra Developers (232% YoY), KNR Cons (317% YoY), KEC (83% YoY), NCC (109% YoY), PNC Infratech (178% YoY). (Note: RITES capex at (-) 40% YoY; L&T: 0%)
- Negative: Delayed payments in water projects; Positive: rise in renewable/hydro/wind projects
- 17% YoY capex growth to INR70b

Fertilizers/pesticides/agrochemicals

- Domestic demand: Good. Global demand: Mixed (Africa, Middle East, South Asia performing well; US weak)
- 62% growth in capex to INR53b (UPL, Bayer CropScience, Chambal, Coromandel)

Specialty chemicals

- Robust demand led by expansion in agrochemicals, pharma, and fluorochemicals
- 19% capex growth to INR44b (SRF - announced two new projects of INR7.4b for agrochem in Dahej and Indore)

Small sectors, big capex: ECom, Realty, Zinc, Industrial Minerals, Carbon Black (2/2)

Industrial minerals

- Major capex allocated toward slurry pipeline and digital mining (IoT/Drone-based)
- 57% YoY increase in capex to INR55b (NMDC, Gravita India, Gujarat Mineral Development)

Zinc

- Restraint capacity expansion; steady zinc demand with higher production costs (exploring rare earth element opportunities)
Production lower due to lower ore grades in certain mines and global price volatilities; Funding: Internal accruals
- Hindustan Zinc: 33% capex growth to INR57b

Textiles

- Domestic: Weak, Global: Expectations of higher exports; Global uncertainty weighs; FTAs provide some support (UK-India FTA).
- 40% YoY capex to INR28b (KPR mill, Vardhman)

Ecommerce

- Expansion in tier-2, tier-3 cities; warehouse building; Risk: Competition
- >100% capex growth to INR13b (Eternal Ltd)

Carbon Black

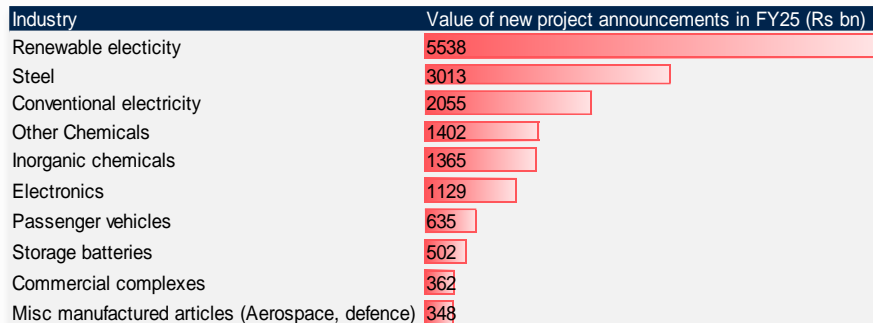
- (PCBL) INR35b capex is allocated across three initiatives over the next five years, expanding carbon black capacity to over 1MT and doubling Aquapharm's capacity and infusion in the new JV for nano silicon products. Global CB demand is expected to post a 3.6% CAGR. The Indian tire industry is likely to clock 7-8%, positioned to capitalize on the EV battery market growth.
- PCBL capex: 117% YoY to INR7b

Realty

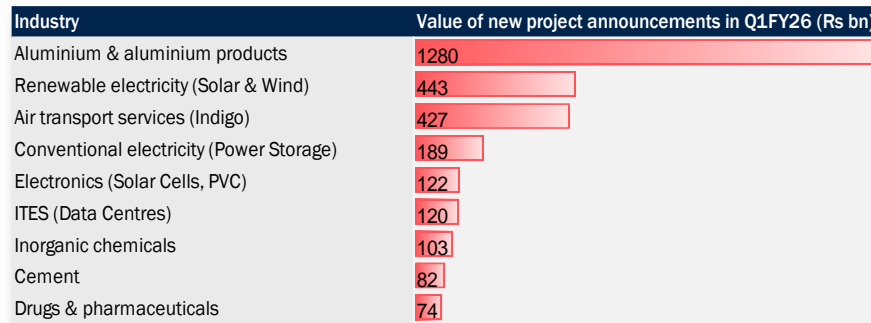
- Only a few companies are adding fresh capital; inventory is an issue for the remaining companies. The sector is likely to benefit the most from interest rate cuts, fiscal push (income tax, GST rate cut), and easy liquidity.
- 84% capex growth to INR61b (DLF, Prestige Estates)

Sectors announcing capex projects – Metals, Renewables, Power, Electronics

- While companies typically begin the year with capex targets, they often face challenges in meeting them. Here, we examine capex announcements across key sectors in FY25 and 1QFY26 to identify where actual investment activity is taking place.



Source: CMIE, MOFSL Research



Source: CMIE, MOFSL Research

- Newer sectors: Renewables, inorganic chemicals, infra (airports, ports), defense, data centers, semiconductors, green hydrogen, EVs, energy storage (Tata, JSW, Adani, Reliance, etc)

Banks lending money to Power, Renewable, Electronics, Airline

- RBI's sectoral credit data shows strong lending growth in Metals, Electronics, and Power. Through our corporate channel checks, we have compared private sector capex plans/announcements with areas where banks are actively disbursing credit.
- **Objective:** To assess whether the market can support these capex plans and validate if private sector investment intentions align with actual bank lending trends.

KEY SECTORS WHERE CREDIT OFFTAKE IS TAKING PLACE

- Power generation/distribution
- Renewables (solar)
- Electronics
- Airline
- Telecom (Vi)
- Data centers
- Metals (slower but ongoing growth)
- Ports (deployment of capital raised is an issue)

KEY SECTORS WHERE CREDIT OFFTAKE IS NOT TAKING PLACE

- FMCG (only organic capex taking place; not much borrowing from banks)
- Diversified retail (Banks hesitate to lend)
- Specialty chemicals (destocking still a challenge)
- Auto
- Pharma (very few players looking for capex)
- Railways (only a few small players looking for capex; recent government policy update a concern)
- Textiles
- Footwear
- Housing (inventory buildup a concern)
- Defense (banks forbidden to lend)
- Cement (strong B/S; own financing)

Sectors dependent on banks (monthly data highlights) – Metals, Electronics, Power

Services loans growth remained resilient: 11% YoY/10% FYTD

- Within services – **trade/real estate/NBFCs**: strong growth

Personal loans growth remained stable: 11.8% YoY (Jul'25: 11.9%)

- Within retail – **housing**: tepid/ **credit card**: slowing /**gold**: strong
- Vehicle** loan growth decelerating (lowest in three months), but decent at 8.7% YoY

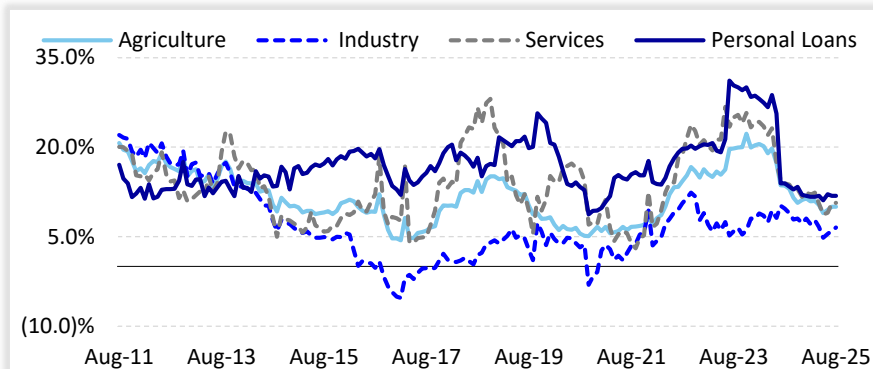
Industry leaders

- Micro** (21% YoY/17% FYTD); **medium enterprises** (13% YoY), **large enterprises** growth improved but still muted
- Basic metal**: Modest 9% growth; followed by the **Engg segment** (20% YoY)
- Power**: 11% YoY/8% FYTD, decent for a large sector.
- Petroleum**: Decelerated but still robust at 9% YoY/5% FYTD
- Chemicals**: Improved to 7% YoY/6% FYTD, the highest growth in five months

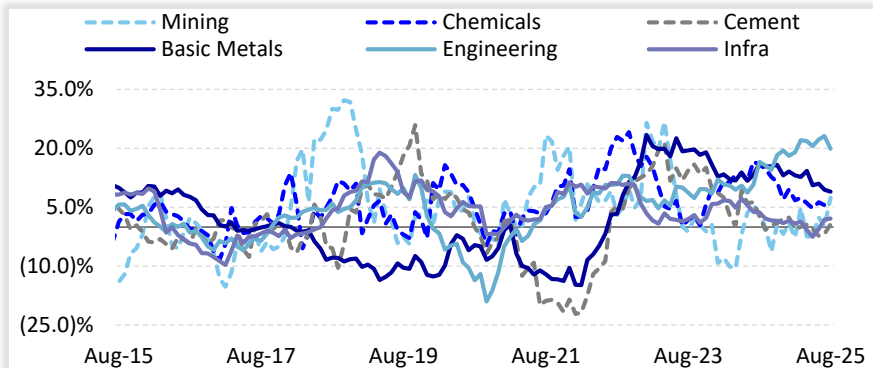
Industry laggards

- Infra** continues to struggle with 2% YoY growth; **Telecom** witnessed a 17% YoY decline/20% FYTD; **Ports** declined 14% YoY/15% FYTD; **Cement** growth improved slightly but still muted at 0.7% YoY/-0.6% FYTD

Broad sectoral credit growth (%YoY)











Sub-sector-wise credit growth (%YoY)



Source: CEIC, MOFSL

Sector-wise ECB flows

- There is a growing reliance on ECBs, IPOs, QIPs, and corporate debt. This slide focuses on sectors leveraging ECB funding to drive modernization and capital expansion.

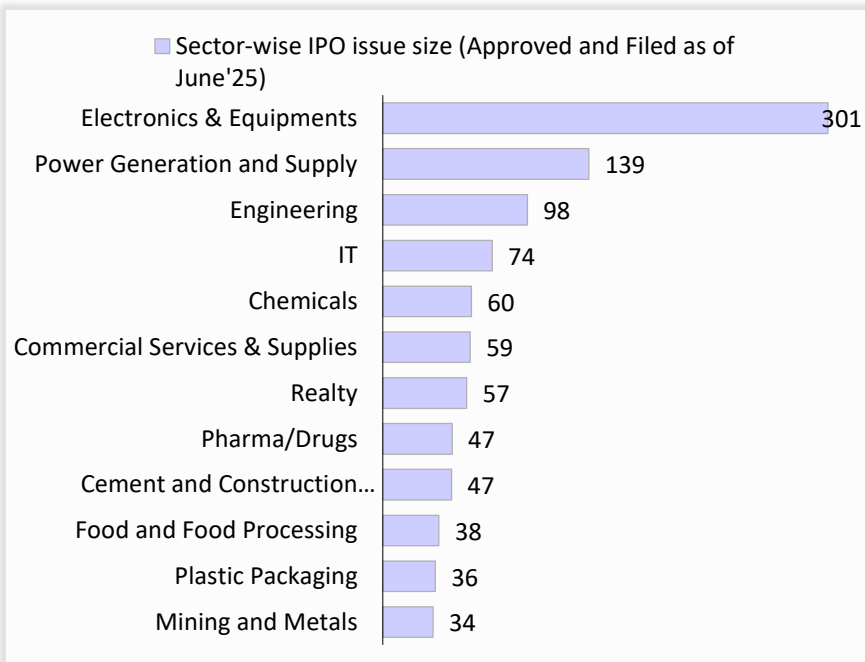
Sector		Purpose of ECB funding over the past year
Services (Aviation)		InterGlobe Aviation raised INR818m to expand its aircraft fleet
Data Centers		INR877m borrowed to build new data centers
Renewable Energy		New green energy projects by Adani Green & Tata Power Renewable
Chemicals & Chemical Products		INR520m for modernization and new projects (SNF Limited, Mundra Petrochem)
Electronic Products		Funding for smart metering and semiconductor manufacturing projects
Basic Metals		For importing capital goods for manufacturing
Infrastructure		Civil engineering firms (Afcons, IRB) using ECBs for new infrastructure projects
Others		Scattered inflows in cement, solar energy, and refractory materials

Source: RBI, MOFSL

Sector-wise IPO announcements – Electronics, Power

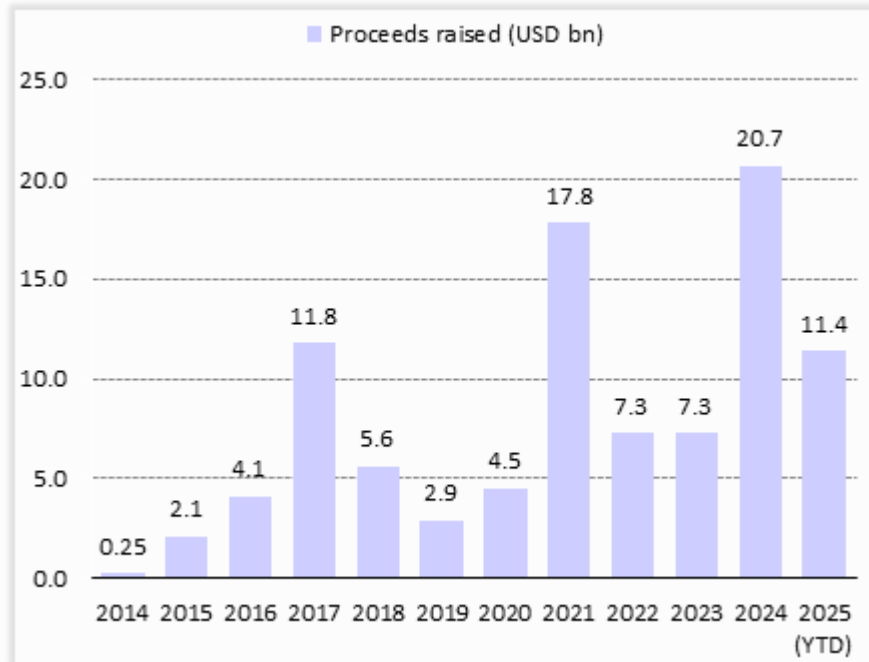
- Electronics and power have the largest issue size in IPOs.

Sector-wise IPO size (INR b)



Source: MOFSL Research

Despite global uncertainties, USD11.4b was raised in CYTD25 via IPO route

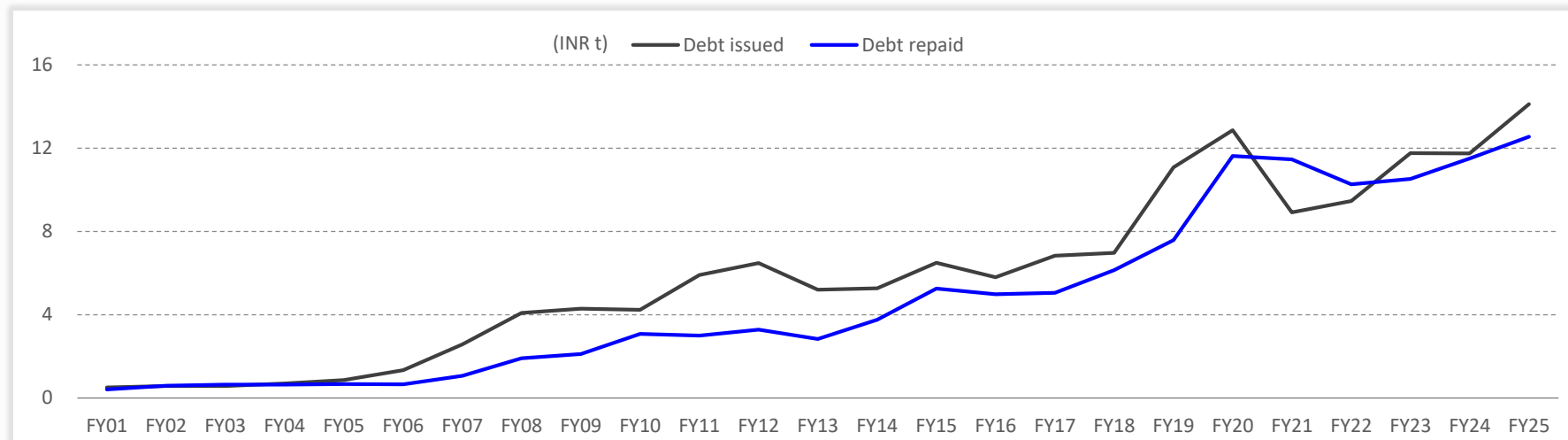


Source: MOFSL Research

Net corporate debt issuance picks up

- India's gross corporate debt issuance at INR14t, as reported by listed players with over INR100m in market caps, has begun to exceed repayments of INR13t over the past three years. This trend not only signals a positive outlook for private capex but also highlights corporate debt as an active financing instrument over and above the traditional banking route and equity raises.
- Looking at the breakdown of corporate debt by sectors over 1QFY26, the top five sectors—excluding financials and government—were Utilities, Materials, Consumer Discretionary, Industrials, and Consumer Staples, totaling around INR750b.

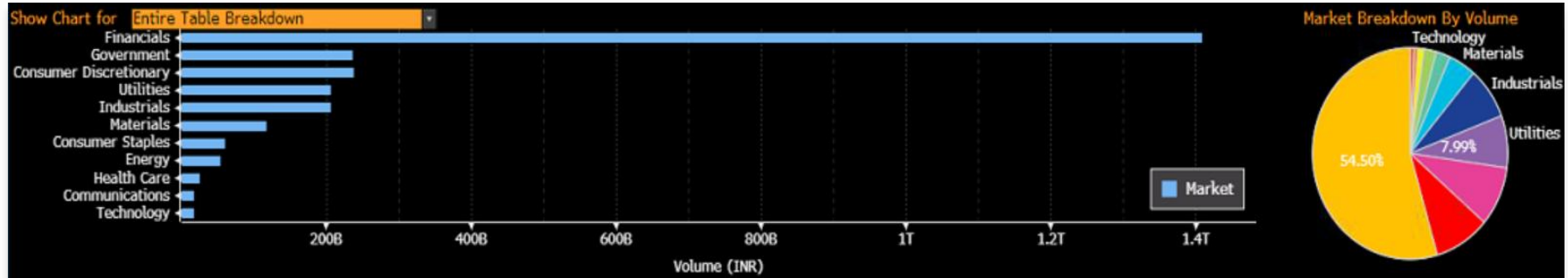
Debt issuance has started exceeding repayment after a decade



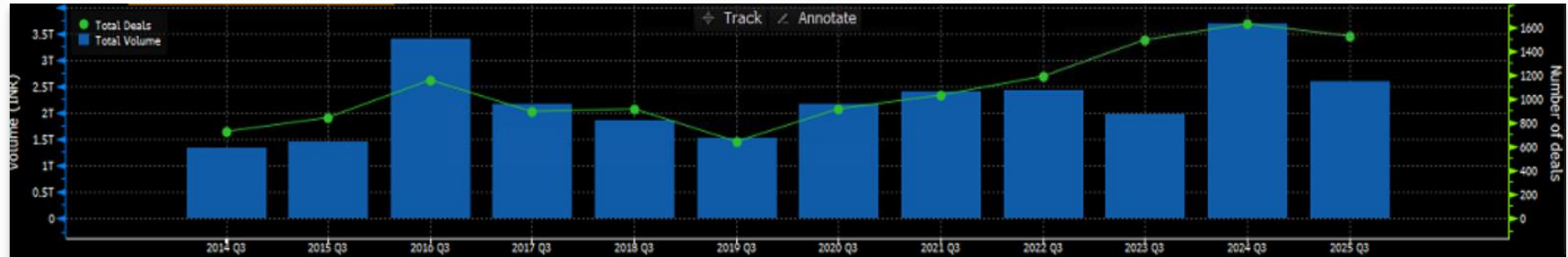
Source: Bloomberg, MOFSL

Consumer Discretionary, Utilities, and Materials gain from corporate debt pickup

Breakdown of corporate debt by sectors for 2QFY26



Quarterly corporate bond issuance volume (INR t)



Source: Bloomberg, MOFSL

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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