

General govt. capex contracts 12.7% in 1HFY25

High chances that the govt. may undershoot its FY25 capex target

- The Government of India (GoI) continued to focus on improving the quality of expenditure by raising its total capital spending (including loans & advances, L&As) by 17.1% YoY to INR11.1t in FY25BE. The spending surged 3.3x in just five years from INR3.4t in FY20. Excluding L&As, the Center's capital expenditure (capex) has been budgeted at INR9.2t in FY25BE (*Exhibit 1*). Based on the unaudited provisional data, The Center's capex declined 13.5% YoY in 1HFY25, achieving only 39.1% of BEs in 1HFY25, compared to 50% each in the last two years and the lowest during the corresponding period in the past decade (except 1HFY21, *Exhibit 2*).
- This, however, was clearly a story of two halves – capex fell more than a third in 1QFY25, while it increased 14.6% YoY in 2QFY25 (*Exhibit 3*). Interestingly though, it grew only in Apr'24 and Jul'24, while declining in four of the last six months. One of the reasons behind slower capex in 1H, thus, could be general elections (which took place in Apr-Jun this year). In any case, it means that the Center's capex has to grow by 50% YoY in 2HFY25, following 22% YoY in 2HFY24 (*Exhibit 4*). This is not impossible but certainly a tall task since the Center's capex growth was < 25% in the last five years (barring FY22, when it grew 57%) and it averaged ~17% in the last ten years and 29% in the last four years. Therefore, we believe that the Center's actual capex this year could be only ~92-95% of BE (INR8.5-8.7t), undershooting the target by INR500-700b.
- It is no surprise that such contraction is visible in defense, roads & railways, since they account for 75-80% of the Center's capex. Defense capex was down 15.2% YoY and was only 31% of BEs in 1HFY25, compared to a growth of 6.2% YoY and an achievement of 39% of BEs in 1HFY24. Capex in railways and roads also dropped 4.8% and 10.1% YoY in 1HFY25, respectively, and were lower at 50-55% of BEs vs. ~60% each in 1HFY24 (*Exhibits 5 and 6*).
- At the same time, capital spending of all states has also more than doubled to INR10.1t in FY25BE from INR4.6t in FY20. Nevertheless, unlike the GoI, which usually meets its budget estimates (BEs), states' actual capital spending was only 83% of BEs over the past decade. Therefore, states' targets must be taken with a big pinch of salt (*Exhibits 7 and 8*).
- Excluding loans and advances (L&As), capital expenditure (capex) of all states was budgeted at INR9.2t in FY25BE. Assuming that states achieve 85% of BEs in FY25 (last 5- or 10-year average was 77-78%), it implies a target of INR7.8t and muted growth of just 3.7% YoY this year (*Exhibit 9*).
- Based on the provisional/supplementary data of 18 states¹, all states' capex is estimated to have fallen 11.5% YoY in 1HFY25, reaching 26.7% of BEs, lower than 31.8% in 1HFY24, but in line with 26-27% achieved during the corresponding period in the past decade (*Exhibit 10*).
- States' capex declined in four of the six months in 1HFY25; it picked up in Jul'24 and Aug'24 but contracted again in Sep'24. Consequently, the contraction was modest in 2QFY25 vs. 1QFY25. Our estimates suggest that states' capex dipped 20.8% YoY in 1QFY25, followed by a decline of 5.7% YoY in 2Q (*Exhibits 11 and 12*).
- An analysis of individual states suggests that nine out of 18 states witnessed a reduction in capex in 1HFY25 vs. four in 1HFY24 (*Exhibit 13*). Further, as many as seven states have achieved less than a quarter of its annual targets vs. five in 1HFY24 (*Exhibit 14*).
- Overall, the total capex of the general government (GG, Center + states) declined 12.7% YoY in 1HFY25, following a CAGR of 25% during the corresponding period in the last four years (*Exhibit 15*). Fiscal capex, thus, was only 32.9% of BEs in 1HFY25, compared to an average of ~39% in the last two years (*Exhibit 16*) and lower than the past decade's average.
- It is very likely that fiscal capex will pick up in 2HFY25; however, elections cannot explain such weak growth in 1HFY25, especially for states. Assuming ~40% YoY growth in the Center's capex and ~20% YoY growth in states' capex in 2HFY25, combined capex could grow about 30% YoY in 2HFY25, following 17% growth in 2HFY24. It would then be 90% of BEs in FY25, similar to that in the last two years.

¹These states account for 85-90% of all states' Budget. The states/UT covered in this report are Andhra Pradesh (AP), Assam (AS), Bihar (BH), Chhattisgarh (CT), Haryana (HR), Himachal Pradesh (HP), Jammu & Kashmir (JK), Karnataka (KA), Kerala (KL), Madhya Pradesh (MP), Maharashtra (MH), Punjab (PB), Rajasthan (RJ), Tamil Nadu (TN), Telangana (TS), Uttarakhand (UK), Uttar Pradesh (UP), and West Bengal (WB).

Exhibit 1: Total capital spending of the Central Govt. budgeted at INR11.1t in FY25....

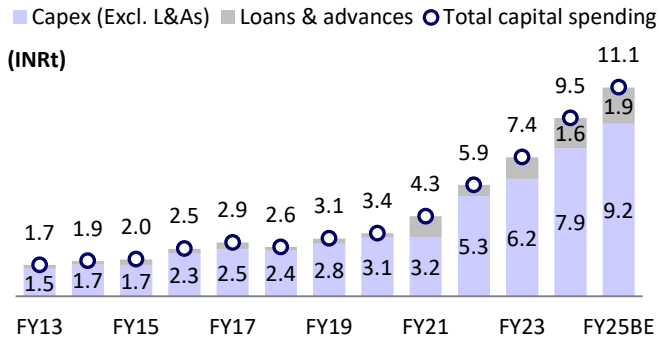


Exhibit 2: ...but it declined 13.5% YoY in 1HFY25, reaching only 39.1% of FY25BE

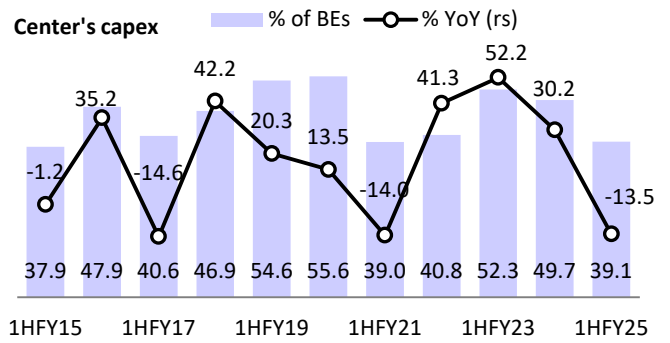


Exhibit 3: Center's capex increased 14.6% YoY in 2QFY25, following a contraction of 35.4% YoY in 1QFY25...

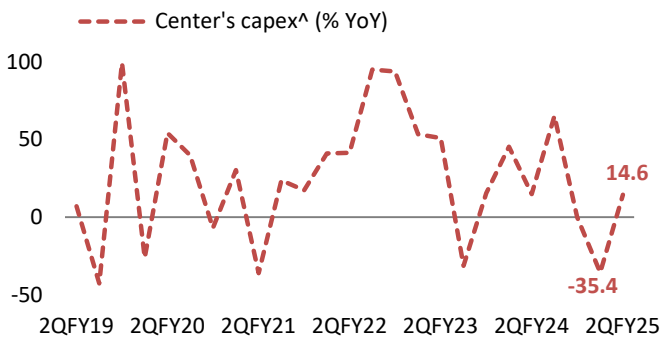


Exhibit 4: ...which implies that it must grow at 50.5% YoY in 2HFY25 to achieve the full-year target

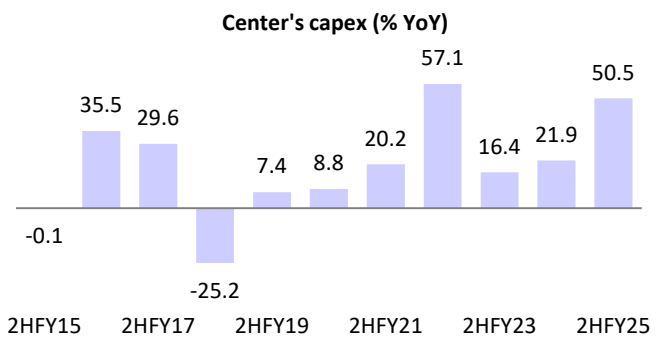


Exhibit 5: Defense and roads capex declined 15.2% and 10.1% in 1HFY25...

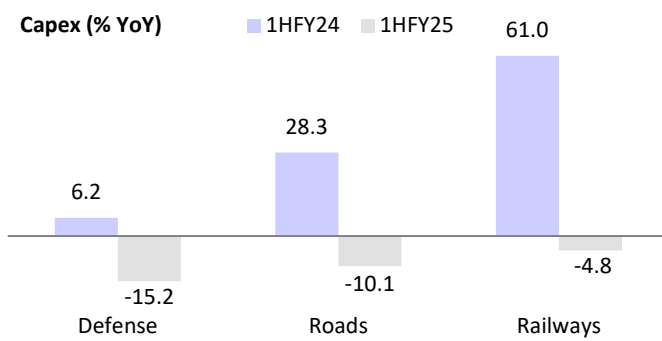
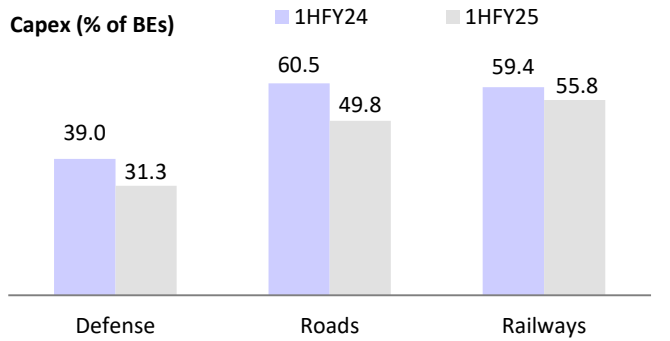


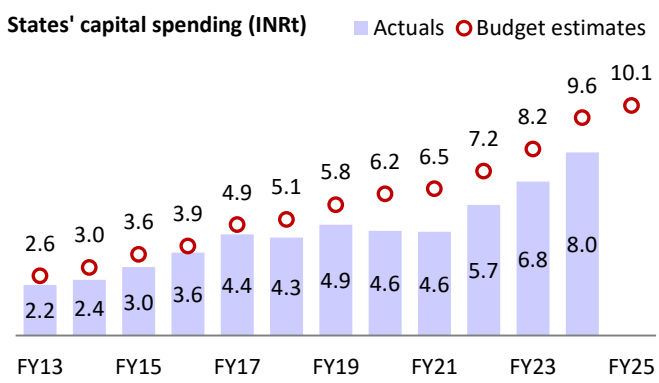
Exhibit 6:achieving only 31% and 50% of BEs in 1HFY25, respectively



Source: Comptroller and Auditor General (CAG), CEIC, MOFSL

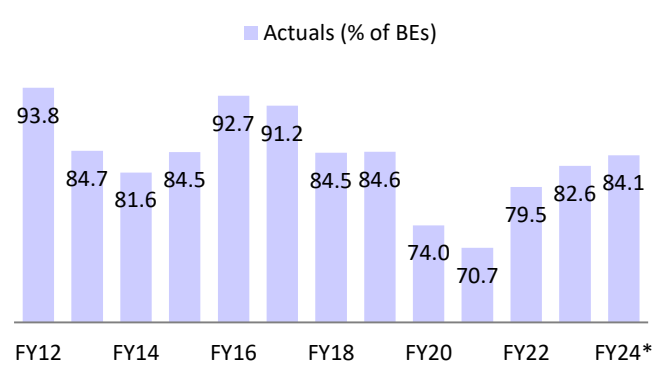
^Capital expenditure excluding loans & advances

Exhibit 7: States' capital spending* budgeted at INR10.1t in FY25BE vs. an actual of INR4.6t in FY20



*Including L&As

Exhibit 8: States' actual capital spending was only 83% of BEs over the past decade



FY24 data based on provisional/supplementary monthly data

Source: State budget documents, CAG, MOFSL

Exhibit 9: States' capex# to grow only 3.7% in FY25, assuming the same achieves 85% of BEs

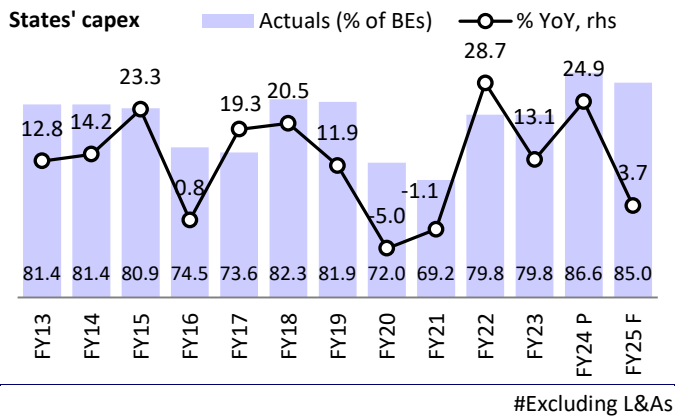


Exhibit 10: States' capex contracted 11.5% in 1HFY25, achieving only 26.7% of BEs

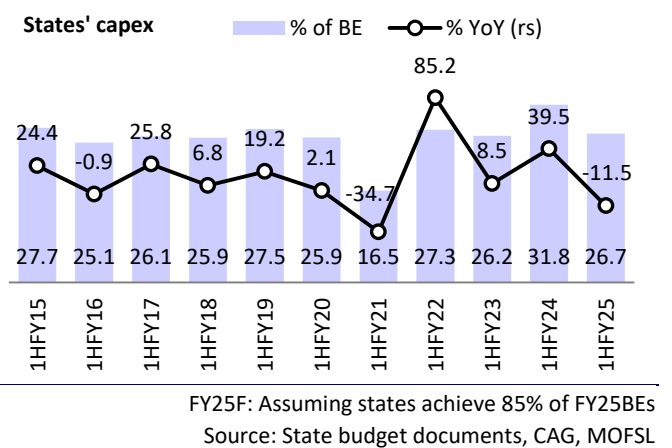


Exhibit 11: States' capex fell in four of the six months in 1HFY25...

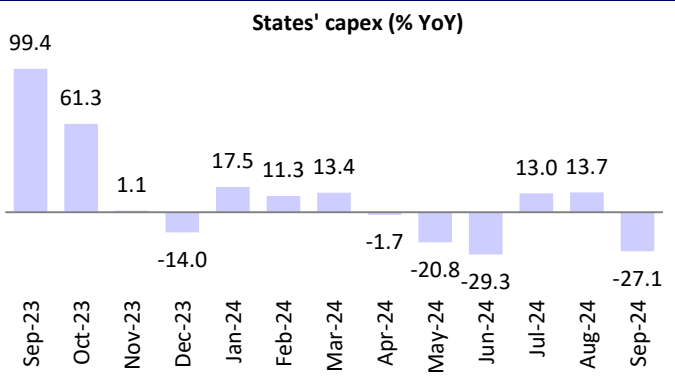


Exhibit 12: ...and contracted 5.7% YoY in 2QFY25, following a fall of 20.8% in 1QFY25

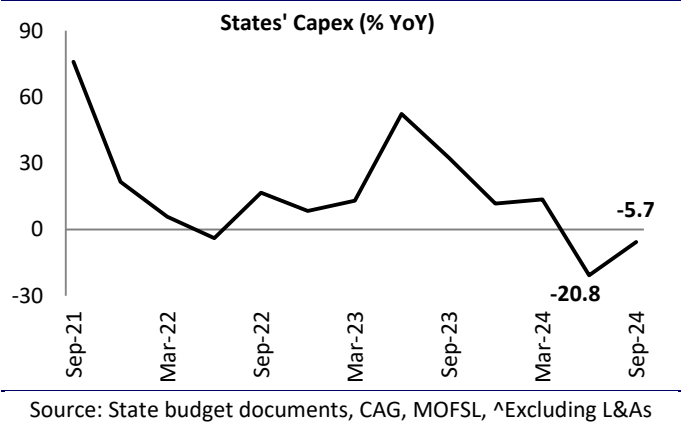
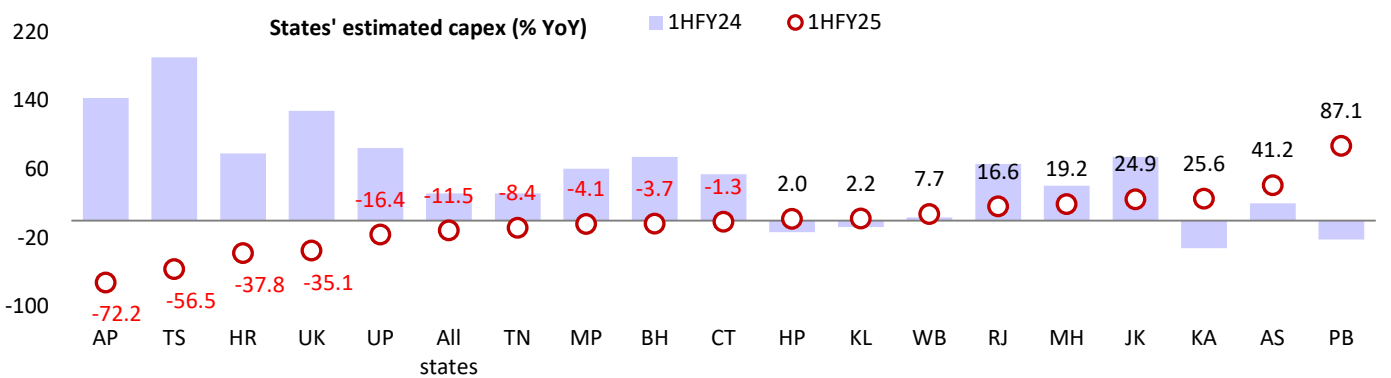
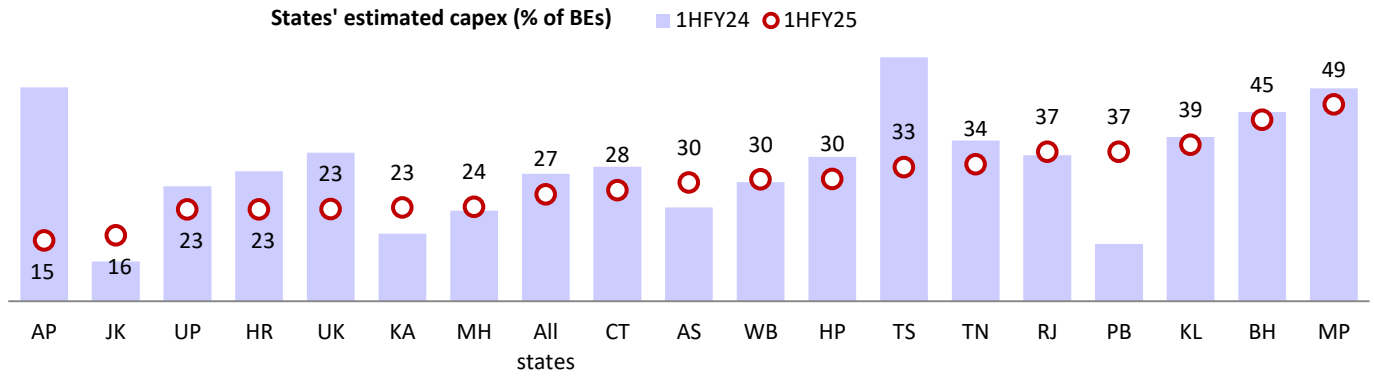


Exhibit 13: Comparison of provisional fiscal deficit of states in 1HFY24 and 1HFY25 (% YoY)



Source: State budget documents, CAG, CEIC, MOFSL

Exhibit 14: Comparison of provisional fiscal deficit of states in 1HFY24 and 1HFY25 (% of BEs)



Source: State budget documents, CAG, CEIC, MOFSL

Exhibit 15: GG capex declined 12.7% YoY in 1HFY25 vs. a growth of 33.8% in 1HFY24...

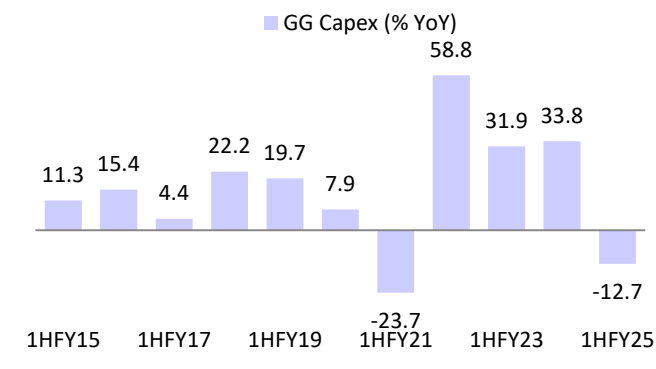
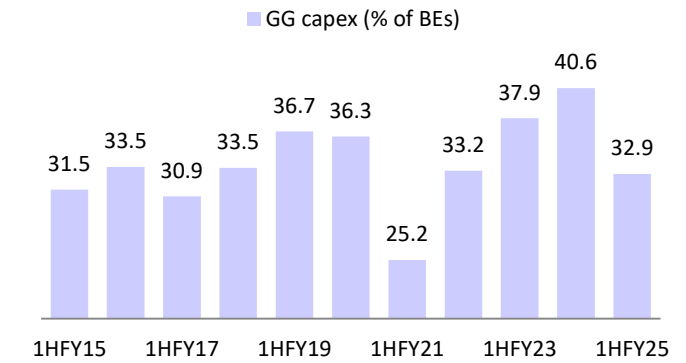


Exhibit 16: ...achieving only 32.9% of BEs in 1HFY25 vs. an average of 39% in the last two years



Source: State budget documents, CAG, MOFSL, ^Excluding L&As

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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 be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

Disclosures

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Financial Services Ltd. (MOFSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOFSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com. MOFSL (erstwhile Motilal Oswal Securities Limited - MOSL) is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Multi Commodity Exchange of India Limited (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) National Securities Depository Limited (NSDL), NERL, COMRIS and CCRL and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products and Insurance Regulatory & Development Authority of India (IRDA) as Corporate Agent for insurance products. Details of associate entities of Motilal Oswal Financial Services Limited are available on the website at <http://online.reports.motilaloswal.com/Dormant/documents/List%20of%20Associate%20companies.pdf>

MOFSL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.

MOFSL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MOFSL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. Details of pending Enquiry Proceedings of Motilal Oswal Financial Services Limited are available on the website at <https://galaxy.motilaloswal.com/ResearchAnalyst/PublishViewLitigation.aspx>

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of MOFSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOFSL research activity and therefore it can have an independent view with regards to Subject Company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL & its group companies to registration or licensing requirements within such jurisdictions.

For Hong Kong:

This report is distributed in Hong Kong by Motilal Oswal capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Securities (SEBI Reg. No. INH000000412) has an agreement with Motilal Oswal capital Markets (Hong Kong) Private Limited for distribution of research report in Hong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

For U.S.

Motilal Oswal Financial Services Limited (MOFSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 act") and under applicable state laws in the United States. In addition MOFSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOFSL, including the products and services described herein are not available to or intended for U.S. persons. This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOFSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore

In Singapore, this report is being distributed by Motilal Oswal Capital Markets (Singapore) Pte. Ltd. ("MOCMSPL") (UEN 201129401Z), which is a holder of a capital markets services license and an exempt financial adviser in Singapore. This report is distributed solely to persons who (a) qualify as "institutional investors" as defined in section 4A(1)(c) of the Securities and Futures Act of Singapore ("SFA") or (b) are considered "accredited investors" as defined in section 2(1) of the Financial Advisers Regulations of Singapore read with section 4A(1)(a) of the SFA. Accordingly, if a recipient is neither an "institutional investor" nor an "accredited investor", they must immediately discontinue any use of this Report and inform MOCMSPL.

In respect of any matter arising from or in connection with the research you could contact the following representatives of MOCMSPL. In case of grievances for any of the services rendered by MOCMSPL write to grievances@motilaloswal.com.

Nainesh Rajani

Email: nainesh.raiani@motilaloswal.com

Contact: (+65) 8328 0276

Specific Disclosures

- 1 MOFSL, Research Analyst and/or his relatives does not have financial interest in the subject company, as they do not have equity holdings in the subject company.
- 2 MOFSL, Research Analyst and/or his relatives do not have actual/beneficial ownership of 1% or more securities in the subject company
- 3 MOFSL, Research Analyst and/or his relatives have not received compensation/other benefits from the subject company in the past 12 months
- 4 MOFSL, Research Analyst and/or his relatives do not have material conflict of interest in the subject company at the time of publication of research report
- 5 Research Analyst has not served as director/officer/employee in the subject company
- 6 MOFSL has not acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
- 7 MOFSL has not received compensation for investment banking/ merchant banking/brokerage services from the subject company in the past 12 months
- 8 MOFSL has not received compensation for other than investment banking/merchant banking/brokerage services from the subject company in the past 12 months
- 9 MOFSL has not received any compensation or other benefits from third party in connection with the research report
- 10 MOFSL has not engaged in market making activity for the subject company

The associates of MOFSL may have:

- financial interest in the subject company
- actual/beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report or date of the public appearance.
- received compensation/other benefits from the subject company in the past 12 months
- any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.
- acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
- be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies)
- received compensation from the subject company in the past 12 months for investment banking / merchant banking / brokerage services or from other than said services.

- Served subject company as its clients during twelve months preceding the date of distribution of the research report.
- The associates of MOFSL has not received any compensation or other benefits from third party in connection with the research report

Above disclosures include beneficial holdings lying in demat account of MOFSL which are opened for proprietary investments only. While calculating beneficial holdings, it does not consider demat accounts which are opened in name of MOFSL for other purposes (i.e holding client securities, collaterals, error trades etc.). MOFSL also earns DP income from clients which are not considered in above disclosures.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Terms & Conditions:

This report has been prepared by MOFSL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOFSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOFSL will not treat recipients as customers by virtue of their receiving this report.

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MOFSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of MOFSL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOFSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOFSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOFSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is meant for the clients of Motilal Oswal only.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 - 71934200 / 71934263; www.motilaloswal.com.

Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 71881000. Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

Registration details of group entities.: Motilal Oswal Financial Services Ltd. (MOFSL): INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412 . AMFI: ARN : 146822. IRDA Corporate Agent – CA0579. Motilal Oswal Financial Services Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Insurance, Bond, NCDs and IPO products.

Customer having any query/feedback/ clarification may write to query@motilaloswal.com. In case of grievances for any of the services rendered by Motilal Oswal Financial Services Limited (MOFSL) write to grievances@motilaloswal.com, for DP to dp@grievances@motilaloswal.com.