

Emerging Odisha: India's potential growth engine

August 30, 2024 | Ratings

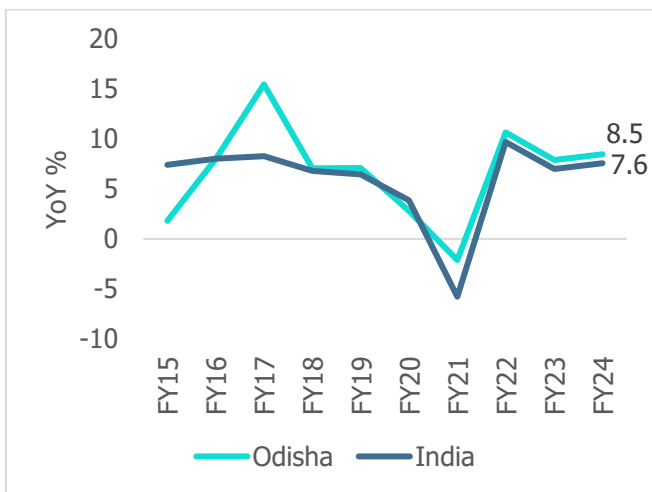
Odisha Economy – A brief overview

In FY24, Odisha's Gross State Domestic Product (GSDP) reached a remarkable figure of ₹8.3 lakh crore. The state's GSDP growth outpaced the national average by approximately 1%. This robust growth has significantly reduced the per capita income disparity between Odisha and the rest of India to 13%, a substantial improvement from the 32% gap observed in the fiscal year 2015-16. In terms of actual figures, Odisha's per capita income was recorded at ₹1.61 lakhs, closely approaching the national average of ₹1.86 lakhs.

Odisha, ranking as the 13th largest state by economic size in FY23, has seen its contribution to India's GDP climb to nearly 2.8% in FY24. This economic ascent is largely attributed to the state's impressive real GDP growth rate of 8.5% in FY24, which eclipsed the national growth rate of 7.6%. Moreover, Odisha's economic expansion has not only rebounded but also exceeded pre-pandemic levels (average growth rate of approximately 7% during FY18 and FY19).

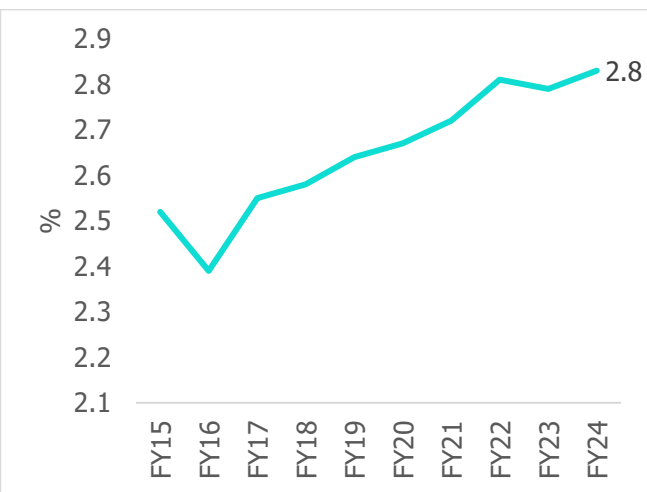
The industrial sector, particularly manufacturing and mining sector, has been the cornerstone of Odisha's economic development, accounting for around 43% of the GSDP as against 28% for whole country. Odisha's status as a resource-rich coastal state is further solidified by its leading position in mineral production across India. Odisha is responsible for the entire chromite output of India, nearly three-quarters of bauxite yield, over half of the iron ore extraction, about a quarter of coal mining, and a fifth of manganese production as of the fiscal year 2022. Concurrently, the services sector is also gaining momentum, contributing 36% to the GSDP of Odisha.

Figure 1: 10-year trend of Real GDP growth



Source: CMIE

Figure 2: 10-year trend of Odisha's share in India's GDP

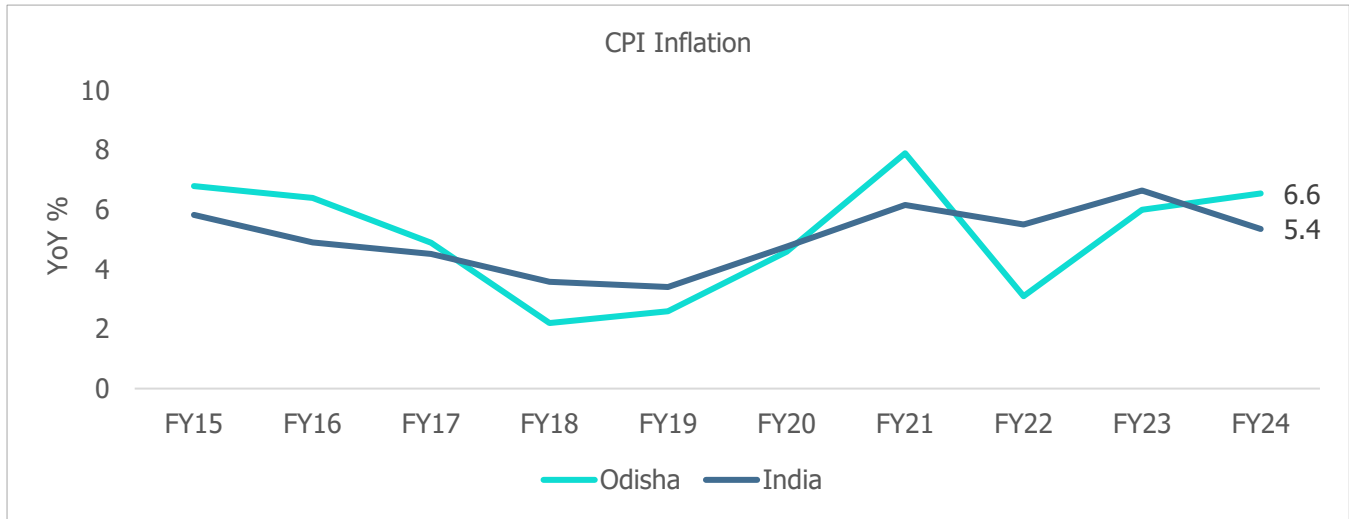


Source: CMIE

Economic updates of Odisha

Over the past decade, inflation in Odisha has mirrored the All-India average. However, in 2023-24, Odisha's inflation rate was 6.5%, surpassing the national average of 5.4%. Among 17 major states having average inflation rate of

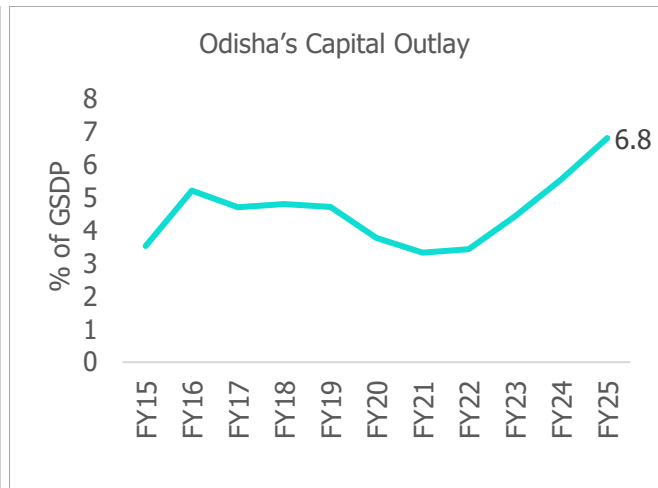
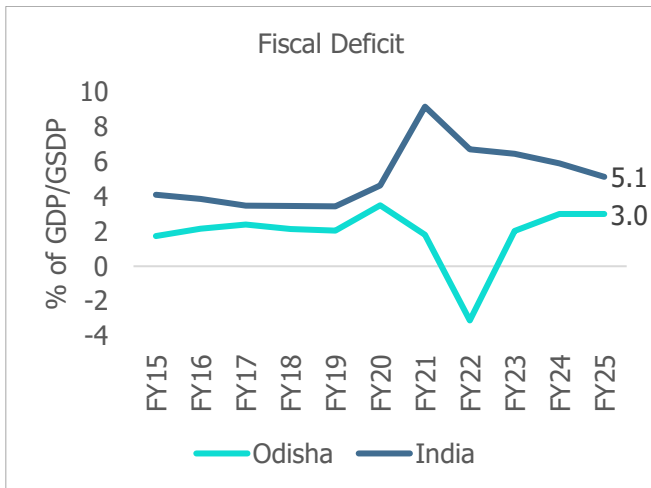
5.5% in 2023-24, Odisha recorded the second highest inflation rate. The rise in inflation in Odisha is primarily due to price increases in primary goods, such as food and beverages.



Source: RBI and CMIE

Fiscal deficit of Orissa has been much lower than that of India over the years. Odisha's fiscal deficit is estimated to be 3% of GSDP in FY25. This is in line with Centre's mandate for states to maintain a fiscal deficit below 3.5% of GSDP.

The capital outlay in FY25 is estimated to be Rs.63,162 crore, which is about 6.8% of GSDP (as against 1.6% of GSDP in FY1999-2000). The capital outlay has gone up by 36.8% from FY24 and is more than 79x since 1999-2000. This is likely to aid to revenue surplus of the state and manage fiscal deficit going forward.



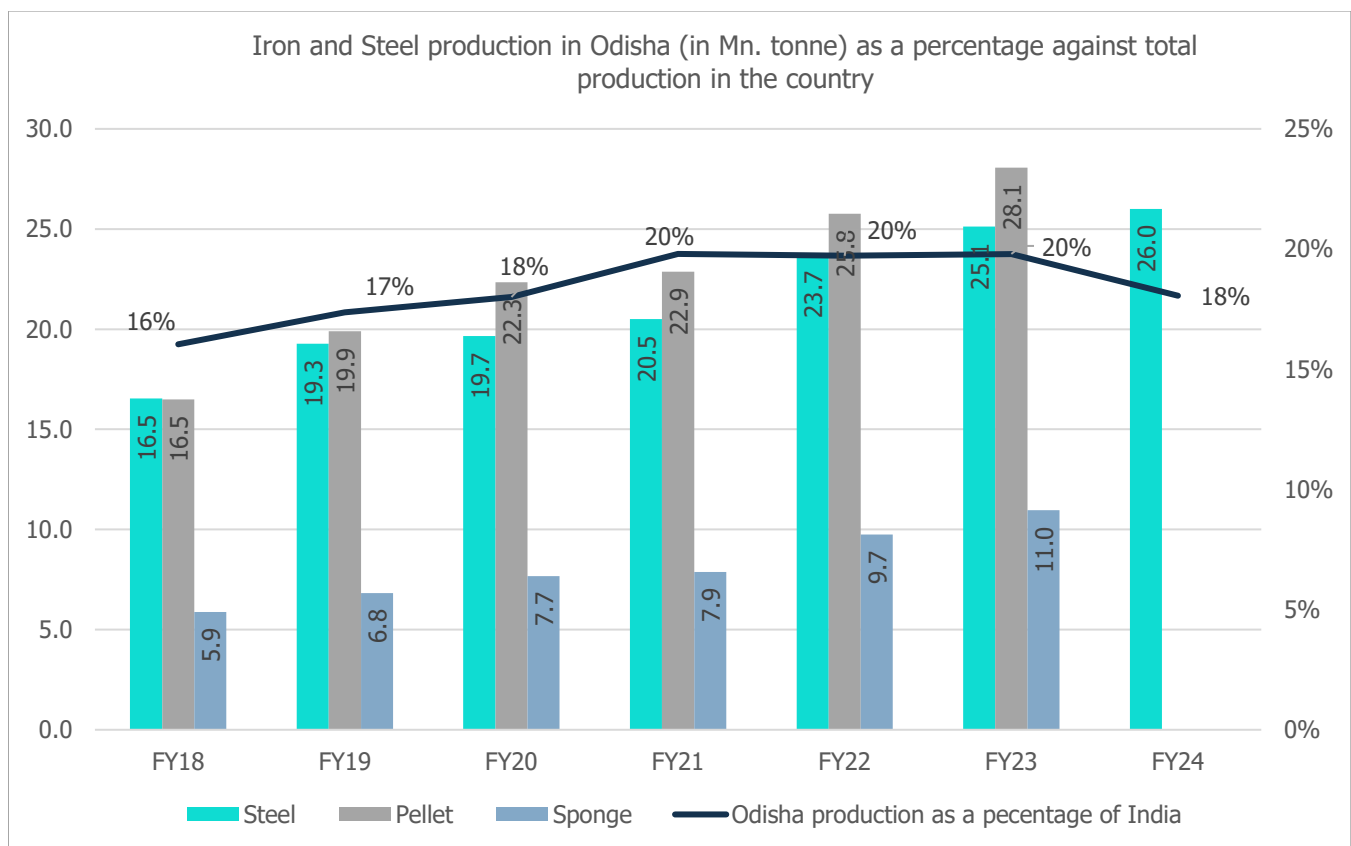
Overview of major sectors in Odisha

The sector-wise contribution of Odisha's economy was estimated to be 29% for agricultural sector, 31% for manufacturing sector and 40% for the services sector in FY22 (at current prices). Being a mineral rich state with coastline of about 480 kms, Odisha possesses distinctive advantage of enticing investments in ancillary and downstream metal industries. The growth potential including upcoming projects as well as challenges in respect of five sectors namely iron & steel, shrimp, aluminium, port and coal are critically examined below:

Iron and Steel

Odisha has around one-third of the country's total iron ore reserves, making it one of the most popular investment destinations for domestic and international iron and steel investors. Also, it is the largest producer of steel and stainless steel in the country.

There are around 52 steel plants as on date with total installed capacity of 33.36 MTPA which is around 20% of the 160 MTPA country wide capacity. The state is looking to improve its production capacity in the next 6-7 years to facilitate achievement of national target of 300 MTPA by 2030. Besides integrated players, many sponge iron units and pellet plants are also operating in the state in view of vast iron resources, which are contributing to the domestic steel production.



Source: Steelmimes.odisha.gov.in

The Crude steel production in the state stood at 26 million tons in FY24 as against 144 million tons in India (indicating 18% contribution of the state). The steel sector in the state has grown at an impressive pace with CAGR of 7.8% over the last 6 years as against 5.7% in whole of India, which establishes the importance of the state for the sector. The crude production has been backed by improvement in pellet and sponge production from 16.49 MnT and 5.88 MnT in FY18 to 28.07 MnT and 10.96 MnT in FY23 respectively.

Initiative by Government: There have been numerous initiatives undertaken by the central and state governments to promote the Iron & steel industry in the country and in the state of Odisha.

One of the important steps in this direction was formulation of National steel policy, 2017 which aimed at covering broader aspects of steel sector across the country. Under the policy, the central Government stated that all the Government tenders will give preference to domestically manufactured steel and iron products. The policy aims to increase per capita steel consumption to 158 kgs by 2030-31 which stood at 93.40 kg in FY23 indicating huge potential.

Further to promote steel sector in Eastern India, the government has launched Mission Purvodaya through establishment of integrated steel hub in Kolkata. Eastern India holds the potential to add 75% of the country's incremental steel capacity.

Key challenges: India is an important producer of iron and steel in the world, and its strength lies on its vast sources of iron ore reserves. Also, future projection of steel production is promising. But increasing and maintaining the quantity and quality of iron ore production and availability of coking coal would be critical.

The industry has been conscious of the fact and have been continuously taking various steps, like usage of superior technology to increase production from existing mines, setting-up Iron ore beneficiation and palletization to ensure the effective utilization of low-grade iron ore and iron ore fines, etc. Further, there is continuous demand from the industry for government initiatives like identification and auction of a higher number of captive and commercial mines, implementing single window clearances, rationalizing taxes and royalties on mining which are currently higher than global benchmarks and boosting overall investment through policy support. This apart, high finance and logistics costs also pose threats for the growth plans for the industry. To push the 'local for global' agenda in the steel sector, policy support will be required to reduce the cost disadvantage and government push through various diplomatic channels.

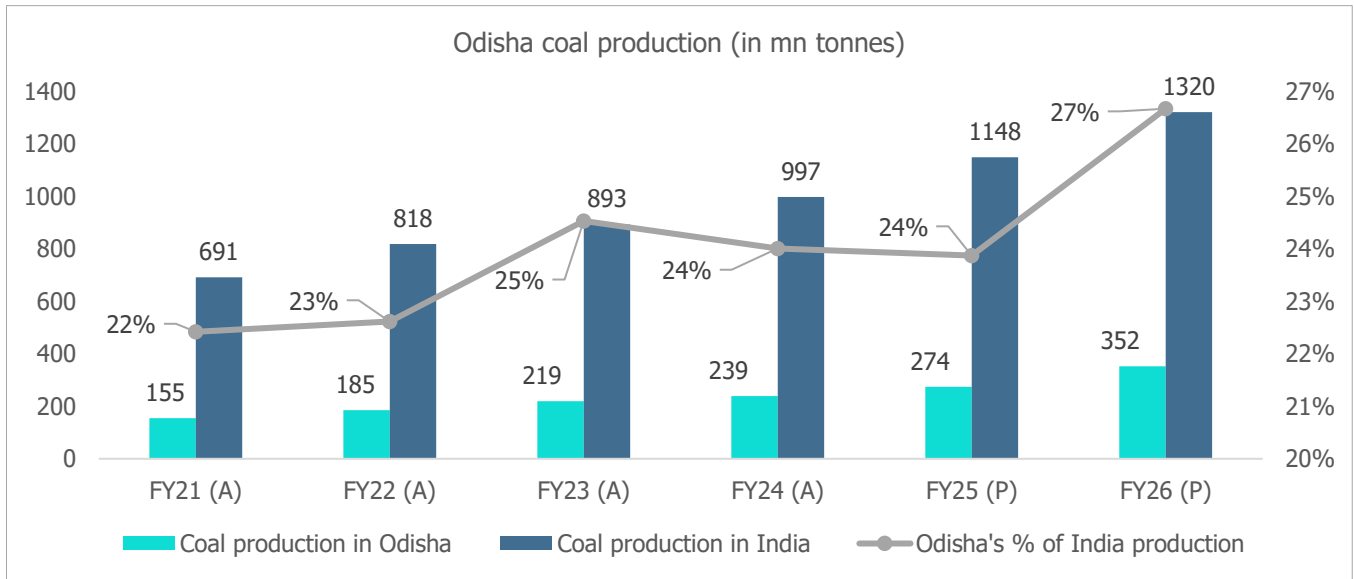
Conclusion: The increasing domestic consumption, coupled with rising investments in various sectors such as infrastructure (roads, railways, metro connectivity), industrial parks, corridors, water, oil and gas transportation, transmission towers, and affordable housing, is anticipated to boost steel demand in the near future. This is expected to drive steel production at a compound annual growth rate (CAGR) of around 7% over the next 3-4 years. Odisha, being a leader in the country's iron and steel industry, is poised to reap the most significant benefits from this growth trajectory.

Coal

During FY24, coal production crossed 997 mn tonnes, registering 11.6% y-o-y growth. Coal India Limited (CIL) continued to be the largest producer of coal accounting for over 75% of the total production. Whereas in FY24, coal imports increased by 7.7% y-o-y to 268.2 MT. Power sector remained the largest domestic consumer of coal accounting for 83% of the total coal despatches during FY24.

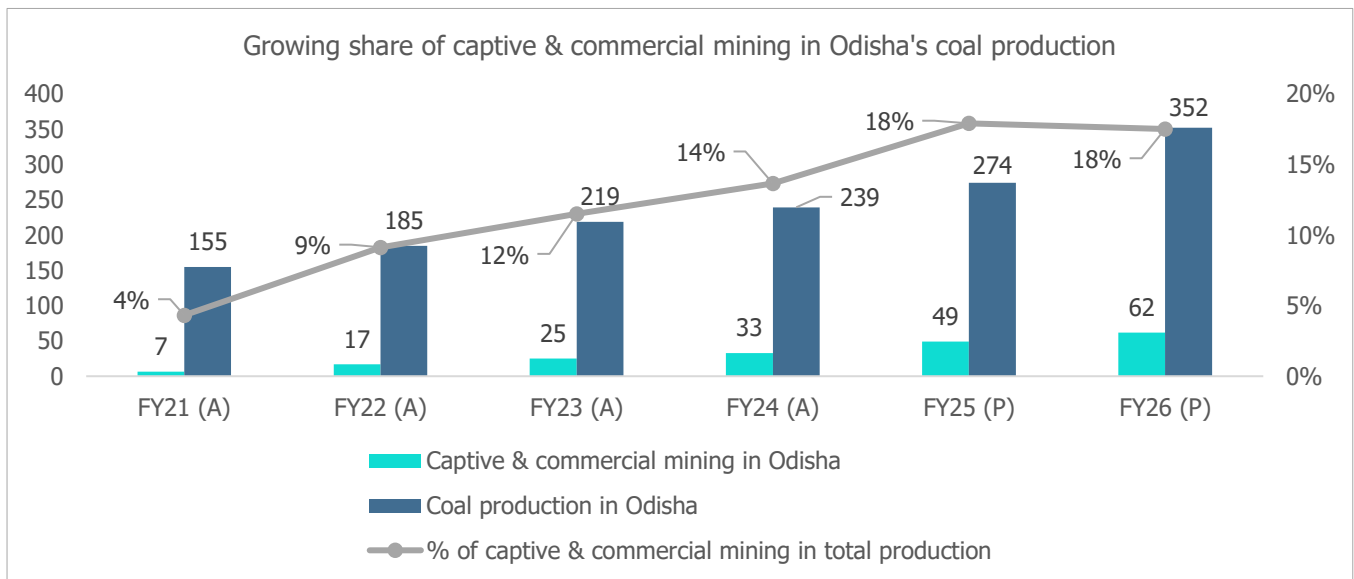
Government of India has taken several steps to augment coal production and to reduce the dependence on imports in the last few years. As a result, coal production has surged from 609 MT in FY15 to 997MT in FY24, a jump of 64% in 10 years. Coal production from Captive/Commercial mines has increased from 52.70 MT in FY15 to 153.6 MT in FY24 a growth of 191.4%.

Odisha's share in India's coal production has been steadily improving from 22% in FY21 to 24% in FY24. Odisha is the 2nd largest state in terms of coal production. The same is expected to increase to 27% by FY26 on the back of increased production from both Coal India and captive & commercial mining.



Source: Ministry of Coal

The share of captive and commercial mining has been increasing in Odisha's coal production. The same has increased from 4% in FY21 to 14% in FY24 and is expected to increase further to 18% by FY26.



Source: Ministry of Coal

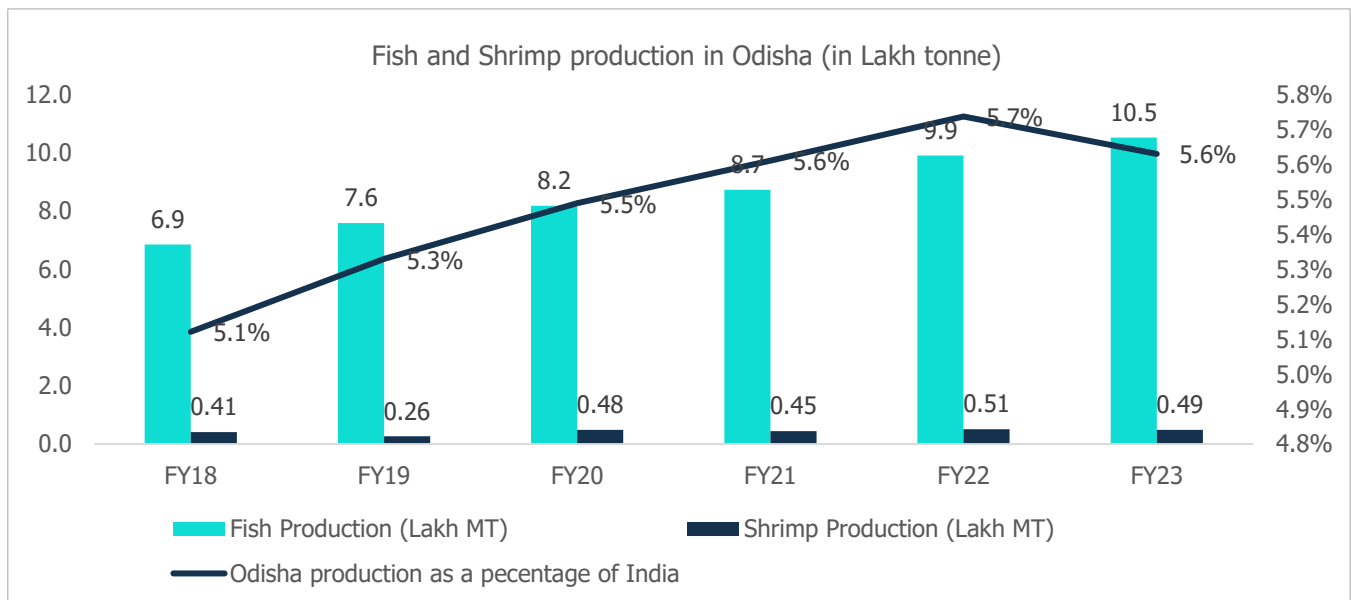
Outlook: The Coal Ministry has set a target of domestic production of 1 billion tonnes by FY24 and for these various steps have been taken. Most notable among them being allocation of coal blocks through transparent bidding, ensuring coal quality through third party sampling, increasing rake availability for seamless transportation of coal, stepping up commercial coal mine auctions, engaging Mine Developer cum Operators (MDOs) to ramp up domestic output, and reopening discontinued mines on a revenue-sharing model to boost production.

Some of other policy measures include Coal Linkage Policy implementation, Mission Coking Coal, setting up of washeries, First Mile Connectivity [FMC] drive, PM Gati Shakti initiatives, commissioning of railway projects, and commercial coal mining.

Till December 2023, 91 coal mines with a Peak Rated Capacity (PRC) of about 220.90 MTPA have been auctioned for commercial mining. Further, the ministry is in the process of auctioning more coal mines going ahead to support availability of domestic coal.

Marine product

Odisha is the fourth-largest exporting state in India for marine products after Andhra Pradesh, West Bengal and Gujarat. Odisha's coastline is around 480 kilometres, providing ample fish and fishery products for external trade after meeting domestic demand. The state has 7.04 lakh ha of freshwater resources, and 4.18 lakh ha of brackish water resource including the world's largest brackish water lake Chilika. Nearly 80% of the people of the State are habituated to eating fish. Accordingly, the marine products are the 4th largest exported products from Odisha after metals, chemicals and minerals standing at around 3.5% of the total exports from the state. There are around 15 lakh fishers in the state which is around 3% of the total population. Given the importance of this sector, there has been various policy initiatives to support the fishers of the state. Around 11.50 lakh fishers have been insured under Pradhan Mantri Matsya Sampada Yojana (PMMSY).



Source: depmodisha.nic.in and MPEDA

The total fish and shrimps' production in the state witnessed 8.7% CAGR in the last 5 years and stood at around 11 lakh tons in FY23. The state contributes to around 6% of the total aquaculture production in the country. Also given that the state has a large fish-eating population, domestic consumption of marine products also stood high. The per capita fish consumption in the state stood high at around 17.73 kg during FY23 which is 7th in ranking (after Andaman, Lakshwadeep, Kerala, Karnataka, Tripura and Manipur) in India.

Key challenges: Although the aquaculture industry has been growing steadily, it faces some major challenges on the way like finding suitable land for aquaculture expansion, working around complex regulatory framework which includes obtaining necessary permits, licenses, and compliance with environmental and quality standards, etc.

Further the infrastructure in the country poses problems including proper water management systems, electricity supply, and transportation facilities, etc. which hinders the expansion of the sector. Access to modern technology and efficient farming practices is also crucial for improving productivity and reducing production costs.

Initiative by Government: The central government has been taking various measures to address the challenges in the industry like introduction of Pradhan Mantri Matsya Sampada Yojana (PMMSY) which was launched on 10th September 2020 to "transform" the fisheries sector'. The PMMSY is a flagship scheme for focused and sustainable development of the fisheries sector in the country with an estimated financial outlay of Rs 20,050 crore from FY21 to FY25. Out of this Rs 12,340 crores is proposed for beneficiary-oriented activities in Marine, Inland Fisheries, and Aquaculture, and about Rs. 7,710 crores for Fisheries Infrastructure.

Further, passing of the Coastal Aquaculture Authority (Amendment) Bill 2023 has allowed shrimp producers along with other seafood producers with various benefits.

The government has also taken various initiatives to reduce export rejection and improve safety of seafoods, like providing financial assistance for setting up of mini laboratory by processors. Also, GOI through its nodal agency Marine Products Export Development Authority (MPEDA) runs various plans and programs. This has led to improvement in the safety standards of marine exports from the country making the Indian aquaculture more export compliant.

Given the importance of sector to the State, the Odisha Government has also taken various initiatives for boosting the sector in the state like introducing schemes like

- Matsya Pokhari Yojana, 2017-18 which encourages farmers and entrepreneurs to undertake freshwater fish production by creating new water bodies,
- Odisha Fishery Policy, 2015 which provides opportunities for the development of fresh water, brackish water, and marine fisheries in the state and
- Mukhya Mantri Krushi Udyog Yojana (MKUY) which provides subsidy of up to Rs. 50 lakhs to farmers and entrepreneurs for taking up fishery -related activities.

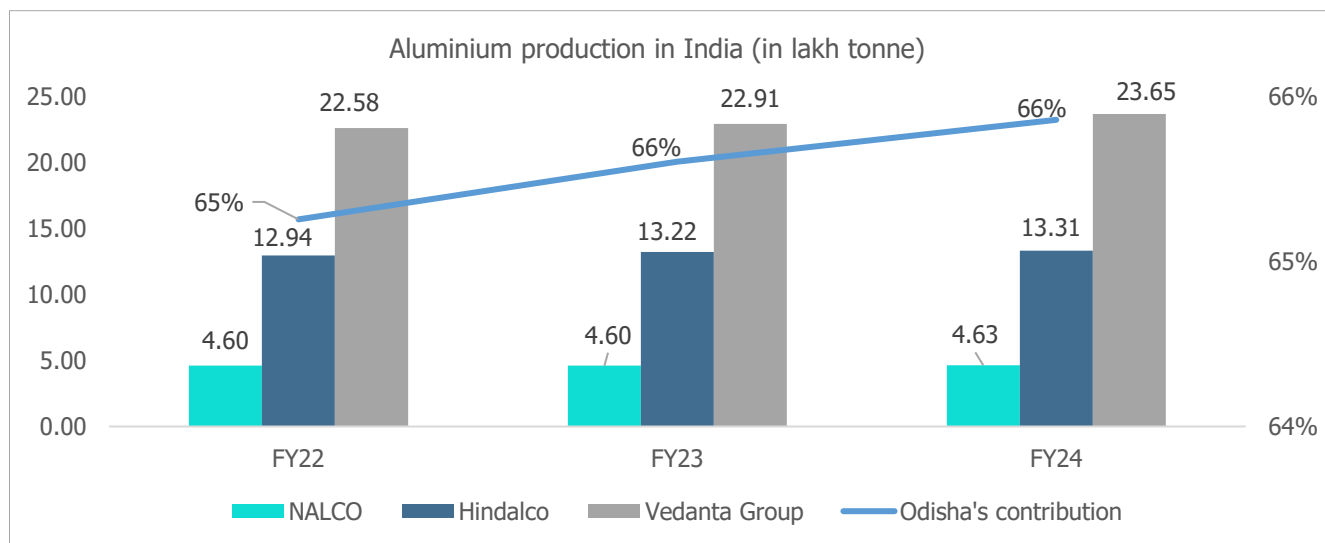
In addition to this the government has introduced 15 days skill upgradation trainings to both inland and marine fisheries to improve on the production and scalability of the industry.

Outlook: The growing population and changing dietary preferences, along with the escalating demand for protein-rich food sources, including fish, are positively influencing the aquaculture market in the country. The supportive policy of GoI and various State government initiatives are expected to augur well for a better global market share of the Indian marine products in the future by improving the product quality, productivity and reducing wastages and rejections through improved infrastructure like cold storage chain, presence of testing laboratories, etc.

The vast coastline provides Odisha ample opportunities for both marine and freshwater fish farming which is bolstering the growth of the market. Nonetheless, the industry prospect demands broad basing the markets through premiumisation of products and geographical diversification of exports for the sustainable growth of marine industry players in the country.

Aluminium Industry: India ranks as the second-largest producer of primary aluminium globally, following China. Odisha alone accounts for 66% of this production. The aluminium industry in India is primarily driven by three

major companies: National Aluminium Company Limited (NALCO), Hindalco Industries Limited, and Vedanta Limited, with a combined installed capacity of 4.1 million tonnes per annum as of March 31, 2024.



Source: Annual reports and presentation of NALCO, Hindalco and Vedant.

Despite moderate growth in aluminium production at 1.5% in FY23 and 2.1% in FY24, domestic consumption has surged by 54% in FY23 and 19% in FY24. This increase is attributed to higher automotive production, enhanced construction activities, and greater demand from the power sector. Although 50-55% of aluminium production is typically exported, the share of exports has declined in recent years due to rising domestic consumption.

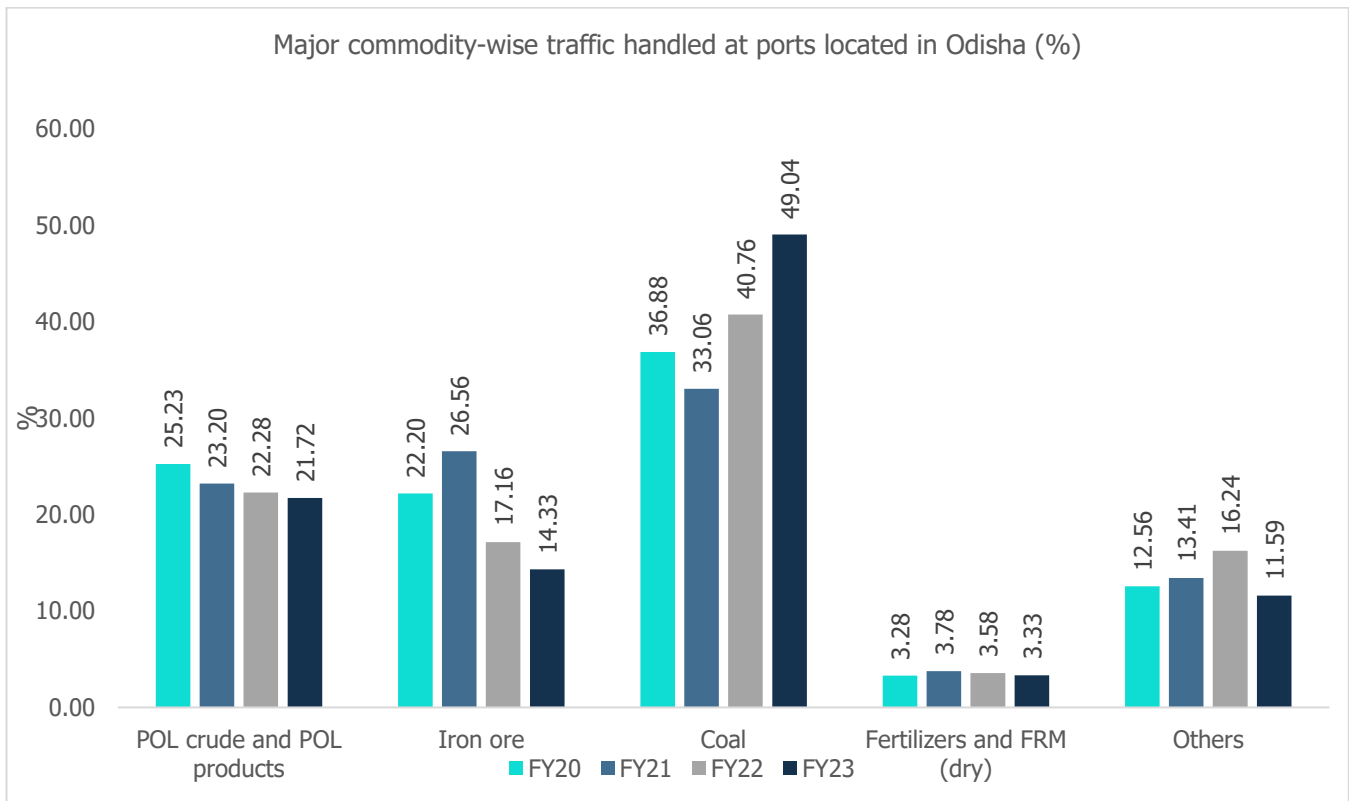
The top three players in the aluminium sector are planning a capital expenditure of approximately Rs. 25,000 crores in Odisha over the next 2-3 years. This investment will focus on bauxite mining, alumina refining, and aluminium production.

Challenges: The Indian aluminium industry faces several challenges as it strives for growth and sustainability. The major challenges are related to factors like high carbon intensity, depleting natural resources and exposure to the price volatility. India's domestic aluminium manufacturers exhibit the highest carbon intensity globally, emitting 17-20 tonnes of CO2 equivalent per tonne of aluminium. This poses a significant challenge due to the growing emphasis on decarbonization and the increasing focus of shareholders and lenders on environmental, social, and governance (ESG) factors. Operating costs may be impacted by carbon pricing policies, potentially shifting demand and necessitating substantial capital expenditure for achieving net-zero emissions.

Outlook: The outlook for the aluminium industry is expected to be stable, driven by healthy growth in end-user industries – infrastructure, power and automobiles. Also, the sectors like aviation, aerospace, construction, packaging, renewable energy, consumer durables, defence, etc., will supplement the aluminium demand. The consumer shift toward electric vehicles (EVs) is also expected to boost aluminium demand.

Port

India has a coastline of 7,517 Km with 12 major ports and 217 notified non-major ports. Out of these, one major i.e. Paradeep port and 14 non-major ports are in Odisha. Out of these non-major ports, only two are handling cargo traffic i.e. Dhamra and Gopalpur.



Source: Transport Research Wing, Ministry of Ports, Shipping and Waterways
 POL: Petroleum, Oil & Lubricants.

From the chart we can see that coal remains the most handled product in Odisha port followed by Petroleum products and iron ore. The proportion of coal in overall traffic has witnessed significant increase from 33% in FY21 to 49% in FY23 due to increased demand of coal from power sector which was fulfilled by Mahanadi Coalfields. Coal and iron ore comprised almost 70% of the Indian Coastal cargo. Paradip port in Odisha became the highest cargo handling port in India in FY24 surpassing the Deendayal port (Kandla) that held the record for last 16 years. The total capex planned in Paradip port in Odisha is around Rs.3,355 crore in May 2024 which majorly comprises of development of dock to handle cape size vessels, construction of breakwater extensions and breakwater toe protection wall, etc.

Outlook: CareEdge Ratings expects increase in share of coastal cargo of coal from 34% in FY23 to 42% in FY26. Furthermore, container volume is expected to grow at 8% in FY25 despite risk of prolonged Red Sea turmoil. There has been elongation in transit time and increase in freight cost with Red sea issue. However, with ship builders expected to release their fleet order on time and its arrival in FY25 is expected to reduce transit time with higher availability of ship.

Conclusion:

Besides the above, the growth prospects of other sectors like education, construction and others are also promising. "The state is in the cusp of next phase of growth and is poised to improve its share in country's GDP and elevate itself in the national ranking," said Priti Agarwal, Senior Director, CareEdge Ratings.

Contact

Priti Agarwal	Senior Director	priti.Agarwal@careedge.in	+91 - 33 - 4018 1621
Arindam Saha	Director	arindam.saha@careedge.in	+91 - 33 - 4018 1631
Punit Singhanian	Associate Director	punit.singhanian@careedge.in	+91 - 33 - 4018 1620
Gopal Pansari	Associate Director	Gopal.pansari@careedge.in	+91 - 33 - 4018 1647
Kamal Mahipal	Assistant Director	Kamal.Mahipal@careedge.in	+91 - 33 - 4018 1628
Vikash Kumar Rai	Assistant Director	vikashkumar.raai@careedge.in	+91 - 33 - 4018 1619
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

Connect :



Locations: Ahmedabad | Andheri-Mumbai | Bengaluru | Chennai | Coimbatore | Hyderabad | Kolkata | Noida | Pune

About Us:

CareEdge is a knowledge-based analytical group offering services in Credit Ratings, Analytics, Consulting and Sustainability. Established in 1993, the parent company CARE Ratings Ltd (CareEdge Ratings) is India's second-largest rating agency, with a credible track record of rating companies across diverse sectors and holding leadership positions in high-growth sectors such as BFSI and Infra. The wholly-owned subsidiaries of CareEdge Ratings are (I) CARE Analytics & Advisory Private Ltd previously known as CARE Risk Solutions Pvt Ltd, (II) CARE ESG Ratings Ltd, previously known as CARE Advisory Research and Training Ltd and (III) CareEdge Global IFSC Ltd. CareEdge Ratings' other international subsidiary entities include CARE Ratings (Africa) Private Ltd in Mauritius, CARE Ratings South Africa (Pty) Ltd, and CARE Ratings Nepal Ltd.

Disclaimer:

This report is prepared by CARE Ratings Limited (CareEdge Ratings). CareEdge Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CareEdge Ratings is not responsible for any errors or omissions in analysis / inferences / views or for results obtained from the use of information contained in this report and especially states that CareEdge Ratings has no financial liability whatsoever to the user of this report.