

FOR SIGHTS

# INCOME GROWTH IS CRITICAL FOR UNLOCKING THE FULL CONSUMPTION POTENTIAL

While overall consumption growth has remained broadly healthy in recent years, indicators suggest emerging pressures in urban demand, even as rural demand holds firm. Rural consumption is expected to be supported by favourable agricultural output and easing inflation in FY26, while the urban outlook remains mixed amidst subdued wage growth. Government and corporates are deleveraging, while household leverage has risen sharply. This could weigh on private consumption, specifically urban consumption. However, RBI rate cuts, lower tax burden, and easing inflation may offer near-term relief, while rural demand could get a boost from a good monsoon this year. The cover story examines key pressures on private consumption and the outlook ahead.

Commercial Vehicle Sales Volume to Witness Moderate Growth of 2-5% in FY26



Khelo Bharat Niti 2025: A Strategic Boost for India's Sports Goods Industry



Sowing Uncertainty: China's Silent Disruption of India's DAP and Speciality Fertiliser Supply



# NOTE FROM SACHIN GUPTA

Chief Rating Officer & Executive Director



## It is time to fight it out

The first-order impact of recent tariffs imposed on Indian exports to the US is by now obvious and noticeable. The export-focused industries like Textiles, Gems and Jewellery, electronics, and shrimps will be worst affected.

A 50% duty adds at least 30% cost (assuming 19-20% tariffs on competitors). This makes it hard for industries to compete, risking jobs in Tirupur, Coimbatore, and Surat. The government is aware, and a resolution is hoped for. While the immediate impact on these industries is quite directly visible, I want to focus today on what the other, more long-term challenges we face and the options that we have, now that we have some sense of the Trump tariff playbook.

Trump tariff playbook - Every economy will be imposed at least 15-20% tariffs, and all imports from the US will be exempt from tariffs. We need to grant this as a major win for the US, considering that they have already signed deals with large exporting economies like the EU, Japan, South Korea, Vietnam, etc. In addition, the US has also got investment commitments running into hundreds of billions of dollars from rich economies like the EU and Japan.

## What does it mean for us - the second-order impact of Trump tariffs?

The Indian private sector's capex will further slowdown. Global companies are likely to focus

on establishing new plants and facilities in the US over the next two years. Meanwhile, domestic firms will adopt a defensive stance, aiming to protect their local market from cheaper imports from the US, which is zero tariff, and China, known for low costs and dumping practices. Given this context, it is understandable that Indian companies will play it safe, conserve capital, and avoid aggressive capex. Moreover, India's goal to become a major manufacturing hub and capture a large share of the global market now seems unlikely. Previously, we competed with Asian countries like Vietnam for the China +1 strategy. However, now the US is encouraging domestic manufacturing, and with a 15-20% tariff protection, it might reach cost parity in some industries.

## We are at the crossroads - Either remain protectionist or fight it out

We have two choices: continue protectionism and remain inefficient, or compete globally. Staying domestic-focused is unsustainable, as India's growth story is based on high growth potential reflected in stock valuations and global fund flows. Without growth, flows dry up, valuations weaken, and the economy declines. No developed country has thrived without export contributions. The only real option is to compete internationally by lowering tariffs to reduce production costs, making manufacturers more competitive. Protectionism prevents Indian firms from becoming globally competitive, so they must innovate and collaborate. The government must implement reforms in labour, land, and approvals to enable entrepreneurs. This path is tough and will impact less competitive industries, but those with low-cost, high-quality production will thrive. Ultimately, we must fight mediocrity, outdated regulations, obsolete technology, and protectionism mindset.



# NOTE FROM RAJANI SINHA

Chief Economist

## RBI Holds Rates Steady

The RBI's MPC kept the policy rate unchanged and maintained a neutral stance, citing a sharp fall in inflation mainly due to volatile food prices, especially vegetables. The Bank warned that with this year's low base, CPI inflation is projected to rise above 4% and beyond in 2026, limiting the scope for rate cuts. It remains optimistic about growth, maintaining a 6.5% GDP growth forecast for FY26 despite an uncertain external demand scenario.

CPI inflation fell to about 2% in June 2025 and is expected to stay around 2.5% over the next two quarters. The RBI has lowered its forecast to 3.1%, mainly due to a sharp decline in food prices, especially vegetables. Vegetable inflation, which was 27% in 2024, has turned deflationary, averaging -15%. The vegetable sub-index, about 6% of CPI, has been volatile. Excluding vegetables, CPI inflation ranged 3-4% in FY25 and remains so in Q1 FY26, showing that vegetable prices drove recent volatility. Other food components also show low inflation or deflation, helped by a good monsoon and a high base from last year. Much of the fall is due to the base effect, which will reverse next year, likely raising inflation above 4% in Q4 FY26 and over 4.5% in FY27, aligned with RBI projections.

RBI remains optimistic about growth, keeping FY26 GDP forecast at 6.5%, close to our 6.4%. Factors like recent interest rate cuts, strong rural demand, low inflation, good monsoons, and lower income tax support growth. While the US's higher tariffs on India are concerning, the direct impact will be relatively limited as exports to the US contribute only around 2% of India's GDP. Uncertainty around US trade policy makes the overall impact hard to gauge, but India might negotiate a trade deal to reduce tariff barriers.

Domestic concerns include uneven recovery in consumption and investment. While a good monsoon supports rural demand, urban income growth remains subdued, especially with weak IT sector hiring. Our study finds that headcount at the top five IT firms plateaued in FY25 after a FY24 contraction, and employee costs grew only 5% in FY25 compared to a 14% average



from FY19 to FY24. This subdued household income likely contributes to weaker urban consumption growth.

On the investment front, the Centre's capex grew 52% in Q1 FY26. Despite economic uncertainties, private players remain cautious. Still, India is likely to achieve healthy growth in FY26.

India's external sector faces uncertainties due to US reciprocal tariffs, which have increased to 25%, eroding some advantages against Asian peers. Merchandise exports are expected to contract in FY26, while services exports remain strong but slower. The current account deficit should be manageable at 0.9% of GDP, but global uncertainties may cause volatile capital flows. Forex reserves at US\$689 billion cover eleven months of imports, broadly insulating India's external sector, though caution remains necessary.

Now, the key question is what to expect ahead. RBI has already cut the policy rate by 100 bps since February 2025 and taken steps to ensure ample liquidity for rate transmission. The Central Bank now plans to wait and observe the impact of further transmission. With CPI inflation estimated at around 4.5% or higher in 2026, real interest rates are very low at about 1%. With growth expected to stay around 6.5%, no further rate cuts are needed unless trade risks severely impact growth, potentially prompting another cut cycle.



# INCOME GROWTH IS CRITICAL FOR UNLOCKING THE FULL CONSUMPTION POTENTIAL

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### Consumer Sentiments Remain Muted

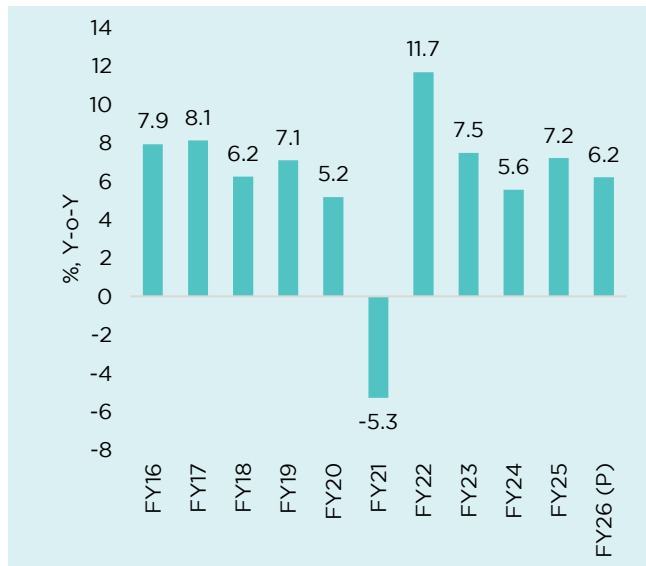
According to the RBI survey, the Current Situation Index of urban consumer confidence has recovered from pandemic lows but remains pessimistic, while rural sentiment has improved to neutral. The income perceptions of the rural and urban households remain weak despite recent gains.

### Tale of Three Balance Sheets

Government and corporates have been deleveraging, while household leverage has risen sharply. Non-financial corporate sector debt declined from a peak of ~66% of GDP in 2017 to an average of 50.5% post-pandemic, aided by the 2019 corporate tax reform. General government debt, after peaking near 88% of GDP during the pandemic, moderated to approximately 82% of

GDP by December 2024 on fiscal consolidation and healthy nominal GDP growth. In contrast, household debt rose from roughly 32% of GDP in 2017 to ~41% by the end of 2024. It is important to note that the general government and corporations are key sources of employment and household income through wages, transfers, and subsidies. With these two sectors cutting debt simultaneously, household incomes may face pressure, especially as household leverage climbs, potentially weighing on demand.

**Exhibit 1: Trends in Private Consumption**



Source: MOSPI, RBI, & CareEdge (P: CareEdge Projections)

### Labour Cost Trends of Listed Non-Financial Corporations Indicate Muted Income Growth

We examine 669 listed non-financial companies to assess labour cost trends. Total labour costs grew 7.2% in nominal terms in FY25—the slowest pace since FY19, excluding the pandemic-disrupted FY21. This is lower than the 10.7% average growth in FY19-FY24. The moderation is driven by a sharp deceleration in IT sector labour cost growth. Given its scale and

importance, the subdued salary growth in the IT sector raises concerns. The IT industry, one of the largest organised employers with around 5.8 million individuals (according to NASSCOM), accounts for nearly 44% of the total employee costs in our sample. Its employee cost growth has fallen from the highs of 19% YoY in FY23 (annual average growth of 15% from FY19 to FY23) to 5% in FY25, driven by weak salary growth and muted headcounts. Our analysis of the top five domestic IT firms indicates a near-stagnation in headcount, following a 4% contraction in FY24. The headcount growth was

healthy in FY20-FY23, averaging 11.5% before contracting in FY24.

Corporate employee costs have stayed subdued, and real wage growth has been weak. The weak wage growth is evident from the Periodic Labour Force Survey data. Average real wage growth for regular wage/salaried employees contracted in 2021 and 2022, before recovering modestly in 2023 and 2024. Real wage growth for casual labourers declined in 2023, followed by a marginal increase in 2024. Higher inflationary pressures muted real wage growth, posing risks to private consumption.

### Employee Cost by Sector

	Share in the Overall Employee Cost of the Sample Firms	FY24	FY25	Growth
	%	Rs Billion	Rs Billion	%, YoY
Information Technology	44%	2062	2163	5%
Automobile & Ancillaries	11%	510	555	9%
Infrastructure	10%	466	530	14%
Pharmaceuticals & Drugs	9%	412	458	11%
Capital Goods	4%	197	219	11%
Non-Ferrous Metals	4%	171	175	3%
FMCG	3%	159	174	10%
Crude Oil	3%	154	161	5%
Chemicals	2%	98	112	14%
Iron & Steel	2%	99	108	9%
Textile	2%	78	87	13%
Cement	2%	75	84	12%
Power	1%	50	54	8%
White Goods	1%	44	53	19%

Source: Ace Equity & CareEdge. Data pertains to a sample of companies (669 listed non-finance companies). Sectors with a share of less than 1% in the total employee cost of the sample have been excluded from the table.

### Moderation in Income Growth Coincided with a Rise in Household Leverage

As of FY24, household debt stands at 41% of GDP and 55% of net household disposable income. Household debt remains on an upswing and is outpacing the relative growth in disposable income. Rising liabilities are driven mainly by housing and unsecured loans. Easier credit access has expanded household borrowing. Housing loans remain the largest driver post-pandemic and are investment-oriented, supporting real estate demand and complementing public capex. However, unsecured loans have surged recently, warranting close monitoring given moderating income growth and rising delinquencies in the segment.

### Consumption Outlook

Private final consumption expenditure, at ~60% of GDP, heavily influences India's growth outlook and private capex revival. Household income growth has been muted, posing risks to consumption if the trend persists. Geopolitical and trade uncertainties may also weigh on exports, with implications for household income and consumption. However, recent reductions in income tax burdens, benign inflation, lower interest rates, and a favourable outlook for agricultural production should support rural incomes and bolster overall consumption. We expect private consumption growth of 6.2% in FY26 vs. 6.7% average over the past three years.

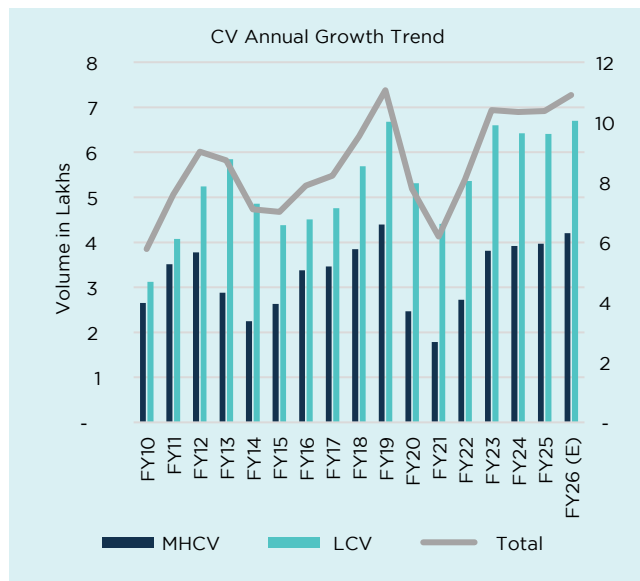
# COMMERCIAL VEHICLE SALES VOLUME TO WITNESS MODERATE GROWTH OF 2-5% IN FY26

In FY25, the Indian commercial vehicle (CV) industry faced a challenging environment marked by election-related disruptions, a slowdown in infrastructure spending, and elevated interest rates. Within the MHCV segment, buses (which constitute ~20% of the total MHCV) exhibited a strong growth trajectory, registering a 21.6% increase in FY25, driven by rising demand for public transport, government fleet replacement initiatives, and the ongoing transition to electric buses. In contrast, MHCV trucks (which constitute ~80% of MHCVs) recorded a decline of 2.7%, primarily due to subdued freight activity, delayed infrastructure projects during the election period, and high interest rates. After experiencing marginal volume degrowth of 1% and 3% in FY24 and FY25, the MHCV truck segment is expected to recover in FY26.

This rebound will be supported by increased infrastructure activity in the country, the replacement of aged vehicles, and cumulative repo rate cuts of 100 bps in CY25 until June 2025, which is likely to boost vehicle financing. Additionally, rising volumes in the bus segment, driven by ongoing fleet replacement spurred by ageing vehicles, will further contribute to overall growth in MHCV sales. As a result of recovery in the trucks segment and continued growth in the bus segment, the MHCV segment is estimated to grow by 4-6% during FY26.

A somewhat similar trend was observed in the LCV segment, wherein passenger carrier volume grew by nearly 8%, supported by urban mobility needs and last-mile connectivity initiatives. In comparison, goods carriers saw a 1% decline, reflecting weak rural demand, slower e-commerce

growth, increased competition from the electric cargo three-wheeler segment, and a tighter financing environment for small fleet operators. The LCV segment is projected to grow by 2-4% in FY26, supported by reduced financing costs for small fleet operators. This improvement in affordability is expected as vehicle financiers pass on the benefits of the cumulative 100 basis point reduction in the repo rate announced by the RBI from the beginning of CY25 to June 2025.



Source: CMIE and CareEdge Ratings

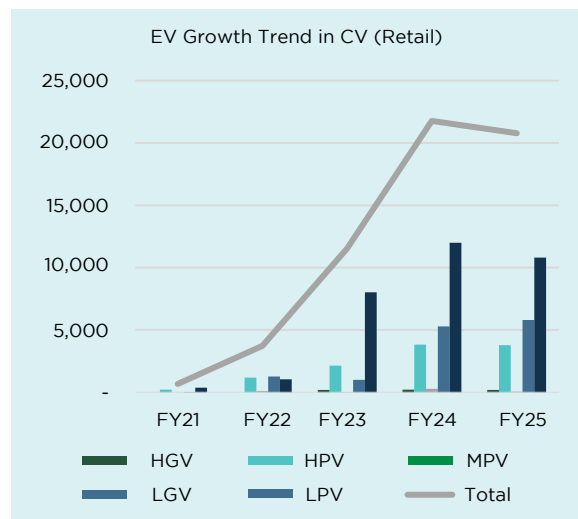
The cumulative 100 basis points reduction in the repo rate announced by the Reserve Bank of India between February 2025 and June 2025 is expected to have a more pronounced positive impact on vehicle financing in FY26, as lending rates gradually adjust and consumer sentiment improves. Replacement demand—particularly driven by ageing fleets and the government’s mandatory scrappage policy for older vehicles—is also likely to support overall CV volumes.

To incentivise fleet renewal under the Vehicle Scrapage Policy, several Indian states have announced road tax concessions ranging from 15% to 25% for fleet operators purchasing new vehicles after scrapping older ones.

Furthermore, in FY26–FY27, the Indian commercial vehicle (CV) industry is expected to undergo significant regulatory changes. These include the mandatory implementation of air-conditioning cabins in trucks starting October 2025, and the proposed introduction of TREM-V emission norms for non-road vehicles from April 2026. TREM-V refers to the Bharat Stage V emission norms for non-road mobile machinery (NRMM) in India, which aim to reduce emissions from diesel engines used in construction, agriculture, and off-road equipment. These regulations are likely to increase vehicle costs, potentially triggering a pre-buying phase in FY26 ahead of their enforcement. The above factors are collectively expected to result in a growth of around 2-5% in overall CV volumes during FY26.

**EV Momentum to Gather Pace**

India’s electric commercial vehicle (ECV) market has witnessed a remarkable transformation over the past five years, despite its smaller share in overall EV sales at 0.9% in FY25. Driven by strong policy support, rising fuel costs, and growing environmental awareness, the ECV segment has expanded across buses, trucks, and LCVs.



Source: CMIE, Vahan Dashboard and CareEdge Ratings

In FY25, the ECV segment witnessed a 4% decline in volumes, following a strong 88% volume growth in FY24. Within this, E-Bus registrations fell by 8%, after expanding by 55% in the previous year. The moderation in growth was primarily attributed to a high base effect,

reduced government subsidies, and the impact of general elections, which led to delays in project execution, fund disbursement and the delay in the off-take of buses. Additionally, elevated interest rates further dampened consumer sentiment and constrained financing options, particularly for individual buyers and small fleet operators in LCVs.

Despite the dip in FY25, the E-Bus market is poised for continued growth in the coming years, supported by increasing adoption across various states and a strategic focus on expanding infrastructure and manufacturing capabilities.

Light Commercial Vehicles (LCVs), including delivery vans and small trucks, are rapidly transitioning to electric power, driven by their critical role in last-mile logistics. Their suitability for electrification stems from lower operational costs, both in terms of fuel and maintenance, which makes them very attractive to fleet operators. Although FY25 saw a slight dip in LCV sales, FY26 is projected to experience a rebound, supported by replacement demand and strengthening economic activity.

**CareEdge Ratings’ View**

“The commercial vehicle (CV) industry is expected to experience moderate growth, with overall sales volume likely to improve by around 2-5% y-o-y in FY26. The recovery will be driven by increased infrastructure activity, improved rural sentiment on the back of normal monsoon forecast, more attractive vehicle financing due to recent interest rate cuts, and ongoing fleet replacement—particularly in the bus segment—spurred by ageing vehicles, road tax concessions available for new vehicles under the scrapping policy for older vehicles and the transition to electric vehicles (EVs).,” said Arti Roy, Associate Director at CareEdge Ratings.

“The Indian CV industry had witnessed its highest sales volume in FY19, and after being adversely impacted by the Covid-19 pandemic, the industry appeared to be on track to surpass the all-time high on the back of significant growth in sales volumes in FY22 and FY23. However, it experienced a cyclical decline in FY24 and a largely flat volume in FY25 due to a multitude of factors, including higher channel inventory, a slowdown in infrastructure projects amid the general elections, the impact of the transition to BS-VI norms, rising vehicle costs, and high interest rates. Looking ahead, the sales volume is expected to grow marginally in FY26 with many of the issues behind us,” said Hardik Shah, Director at CareEdge Ratings.

# KHELO BHARAT NITI 2025: A STRATEGIC BOOST FOR INDIA'S SPORTS GOODS INDUSTRY

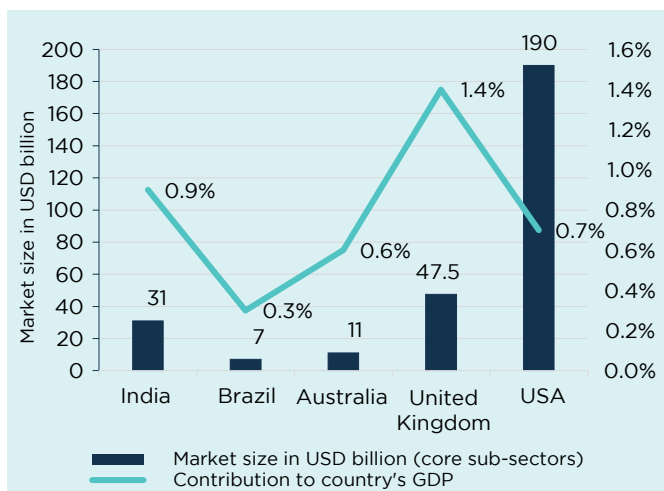
- The Union Cabinet's approval of Khelo Bharat Niti 2025 (National Sports Policy - 2025) on July 1, 2025, marks a pivotal move towards positioning India as a global sports leader, with aspirations for the 2036 Olympic Games. Replacing the 2001 policy, this initiative is expected to stimulate growth in the sports goods manufacturing sector and enhance business opportunities for companies in the industry. Policies and schemes will be developed to actively encourage extensive participation from the private sector. To incentivise, the policy will incorporate Return on Investment (ROI) considerations for private entities, making it both attractive and sustainable.
- India exports ~60% of its sporting goods, with major production clusters located in Jalandhar (Punjab) and Meerut (Uttar Pradesh), collectively contributing ~75-80% of the country's total production. In addition to these legacy hubs, emerging regions such as Tamil Nadu, Maharashtra, West Bengal, Delhi, and Jammu are developing capabilities in niche segments like sportswear, indoor sports accessories, and synthetic materials.
- With more inclination towards sports and fitness, the Indian sports equipment manufacturing market is witnessing healthy growth, driven by rising disposable incomes, urbanisation, and government initiatives promoting sports participation. The market is further fueled by the expansion of

- e-commerce platforms, making sports equipment more accessible to consumers across the nation.

## Indian Sports Market Size

India's sports market, currently valued at ~USD 52 billion, with core sub-sectors accounting for USD 31 billion and allied sub-sectors contributing USD 21 billion, is on track for growth, projected to achieve a compound annual growth rate (CAGR) of 10-12% through 2030. This momentum is being driven by increased government spending, the widespread adoption of digital technologies, and a growing supply of high-quality sports content across multiple disciplines. Currently, the sports sector accounts for ~0.9% of India's GDP, comparable to that of many top sporting countries. Given its close association with other sectors, such as media, telecom, education, real estate and tourism, the multiplier effect of incentivising the sports sector is sizable.

**Exhibit 1: Sports Market Size and Contribution to GDP of Major Sporting Countries**



Source: IMF, IBEF, Olympics.com, Deloitte. The sports economy size includes only core sub-sectors, namely sporting goods and apparel, sports technology, sports infrastructure, facilitator services, broadcasting and promotions, and fantasy sports and esports.

### Indian Sports Goods Exports Continue Upward Trend

The consistent rise in India's sports goods exports over recent years reflects strong global demand and manufacturing capabilities. India exports sports goods to over 150 global markets. Over the last three years, the US and the UK have consistently led in import volumes, followed by Australia and Germany. These markets together account for around two-thirds of India's overall sports exports.

#### Khelo Bharat Niti 2025

Key objectives of the policy include:

- Establishing competitive sports leagues across disciplines.
- Developing sports infrastructure in both urban and rural areas to broaden access and participation.
- Encouraging manufacturing and distribution of high-quality sports equipment to boost industry competitiveness.
- Ensuring financial sustainability and operational excellence of sports facilities

For private players, the policy aims to monetise both hard assets (such as stadiums and arenas) and soft assets (like digital platforms and community programs) through a Public-Private Partnership (PPP) model. Effective management and strategic partnerships will enhance revenue streams and maintain high operational standards. Government initiatives, such as procurement programs, innovation hackathons, and sports incubator programs, will provide the necessary support for startups.

#### Consistent Increase in Budget Allocation to the Ministry of Youth Affairs and Sports

The budget has seen a substantial increase since FY05, rising from Rs 466 crore to Rs 3,794.0 crore in FY25. The Khelo India Programme has been a key recipient of increased funding, receiving Rs 1,000 crore in FY26. Following the approval of Khelo Bharat Niti on July 1, 2025, the budget is expected to increase further in the years to come.



### CareEdge Ratings View

“The policy explicitly supports the growth of sports equipment manufacturing, aiming to improve product quality and enhance market competitiveness, which could include incentives like subsidies, tax benefits, or easier access to raw materials and technology. Integrating the sports equipment manufacturing sector with national schemes such as “Make in India” and “Atmanirbhar Bharat” will be emphasised under the Niti to create job opportunities. The Niti focuses not only on improving sports infrastructure but also on integrating sports with education, promoting a healthier youth. This evolving sector presents an encouraging outlook for manufacturers, stakeholders, and the Indian economy at large,” says Sandeep Aggarwal, Associate Director, CareEdge Ratings.

Puneet Kansal, Director, CareEdge Ratings, said, “Khelo Bharat Niti 2025 is poised to boost demand for sports equipment across various disciplines significantly. The sports goods manufacturing sector in India is set to benefit from the expansion of sports infrastructure in both urban and rural areas. This expansion would enable companies in the industry to generate higher revenue with increased capacity. Also, new manufacturing hubs are expected to flourish in the medium-term to cater to the expected increase in demand for the industry”.

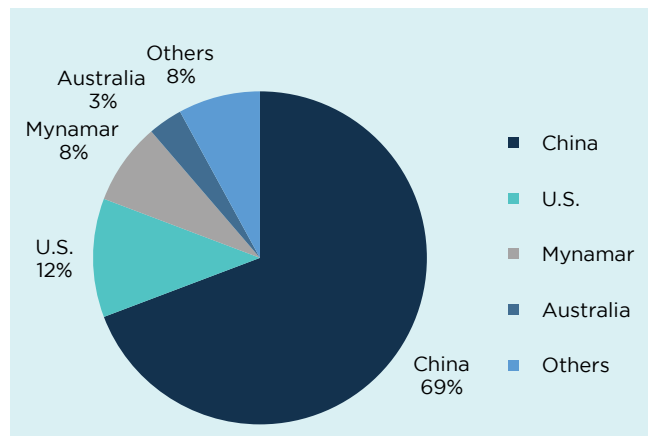
“Khelo Bharat Niti 2025 marks a transformative step in redefining India's sports ecosystem, with a strong focus on job creation across sectors such as sports equipment manufacturing, coaching, broadcasting, event management, etc. While the global sports industry contributes approximately \$600 billion annually, India's current share remains modest and even moderate progress on this front could unlock substantial economic and social value. The policy promotes innovation through start-ups, encourages CSR investments, supports domestic manufacturing, and fosters public-private partnerships. It lays a comprehensive foundation for a thriving sports ecosystem—though its true impact will depend on effective and sustained implementation,” says Priti Agarwal, Senior Director, CareEdge Ratings.

# THE HIDDEN BATTLE FOR RARE EARTHS: STRENGTHENING ALTERNATIVE SUPPLY CHAINS

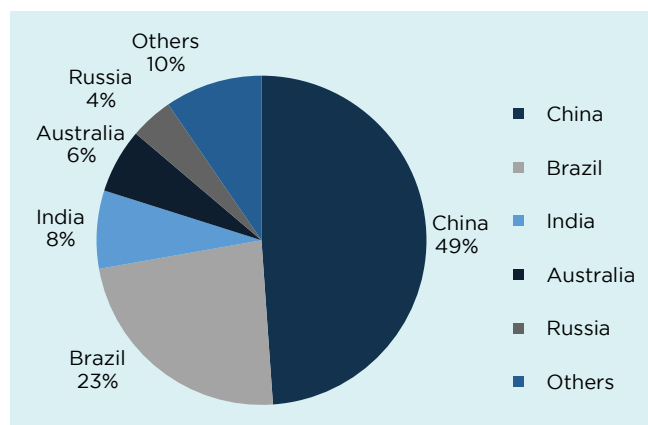
China has firmly established itself as the global powerhouse in the Rare Earth Element (REE) sector, holding 49% of the world's total reserves, mining 69% of REEs, and having a 90% share of REE refining. This dominance grants China significant strategic leverage, which it exercises through its export policies, one such move was temporarily cutting off REE exports to Japan during a diplomatic dispute in 2010, and 2024 ban on exports of gallium, germanium, and antimony to the U.S. Furthermore, on April 4, 2025, China announced additional export controls on seven items related to medium and heavy-rare-earth elements. Further underscoring the vulnerability of the supply chain. REEs, a group of 17 strategically important minerals, are divided into Light Rare Earth Elements (LREEs) like neodymium and praseodymium, crucial for EV motors and wind turbines, and Heavy Rare Earth Elements (HREEs) such as dysprosium and terbium for military-grade magnets and high-performance electronics.

China's monopoly stems not only from its reserve but also from decades of state-backed investment, environmental cost advantages and control over refining infrastructure. It has also expanded its influence by sourcing REEs from countries like Myanmar,

**Global Mine Production, 2024**



**World Reserves of Rare Earth Elements, 2024**



Source: US Geological Survey, 2025

which, despite limited reserves, contribute 8% to global mining primarily through exports from the Kachin State region to China.

### **Breaking Dependency: The U.S. Push to Secure REE**

The U.S. holds 2.1% of the world's reserves and contributes 12% to global mining production, making it the second-largest producer. However, it remains heavily dependent on imports, with China being its primary source, accounting for nearly 70%. The U.S. has been rebuilding its domestic capabilities, investing in mining and processing, forging international partnerships, and funding recycling initiatives to reduce its future reliance on China. The Mountain Pass mine in California is currently the only active REE mine, with new projects underway in Alaska and Wyoming. Since 2020, the Department of Defence has invested over USD 439 million to build domestic supply chains. However, refining remains a major hurdle, as much of the ore extracted in the U.S. is currently shipped to China for refining.

### **Australia: Key Player in the Global Rare Earth**

Australia holds 6% of the world's REE reserves, and it accounts for 3% share of global mining production. Lynas Rare Earth, headquartered in Australia, the largest REE producer outside China, operates a major processing facility in Malaysia and is building another in Texas with U.S. support. The Australian government, through the National Reconstruction Fund, has invested significantly in projects like Arafura Rare Earths. Additionally, Australian Strategic Materials has obtained a USD 600 million Letter of Interest from the U.S. EXIM Bank to advance the Dubbo Project. These efforts position Australia as a key player in diversifying global supply chains.

### **Arctic: The New Rare Earth Battlegrounds**

The Arctic is becoming a strategic battleground for REEs. Greenland, with 1.6% of the world's reserves, is attracting interest due to its untapped deposits and strategic location. The U.S. is planning to propose a Compact of Free Association to Greenland and has lobbied against the Chinese acquisition of key projects. Greenland has also revoked licenses for uranium-rich REE projects to limit Chinese involvement. Ukraine has deposits of 22 of the EU's 34 critical minerals. Before the war, Ukraine was viewed as a promising alternative supplier. The 2025 U.S.-Ukraine Reconstruction Investment Fund grants the U.S. access to Ukraine's mineral resources in exchange for reconstruction support, aligning strategic interest with economic incentive.

### **Brazil and South Africa: Key Western Suppliers**

Brazil holds 23% of global REE reserves, making it the second largest. Its first REE mine, Serra Verde, started commercial production in 2024, with investments from both the U.S. and the UK under the Minerals Security Partnership. Australian Company, Axel REE, also owns four prospective REE projects in Brazil. This indicates that global players are investing in Brazilian REE deposits to counter China's dominance. South Africa, with 0.95% of global reserves, hosts the high-grade Steenkampskraal mine and the cost-effective Phalaborwa REE Project, which is the highest-margin project outside of China and the U.S. International Development Finance Corporation has also proposed a USD 50 million investment. The project has also committed to supporting the Western supply chain exclusively.

### **Unlocking REE Potential: India**

India holds 8% of the world's reserves but contributes less than 1% of global mining. In 2025, the National Critical Mineral Mission was launched to build self-reliance. Key deposits are in coastal states, namely Tamil Nadu, Kerala, Andhra Pradesh, and Odisha. Indian Rare Earths Limited is considering reducing its exports to save REE in the home country and expand domestic processing. The Indian government is also working towards developing domestic manufacturing capabilities.

### **The Road Ahead**

China's share in REE mining and refining is projected to fall by 2030, from 69% to 51% in mining and from 90% to 76% in refining, reflecting a broader international effort to develop more balanced and resilient supply chains.

Despite increasing investments in exploration in mining and processing around the world, alternative supply chains have not yet reached the scale or consistency required to substantially displace current sourcing patterns.

Increasing investment, simplifying permitting procedures, and encouraging international cooperation are key to lowering concentration risks. As these initiatives gain momentum, the global REE landscape is expected to become more diverse and resilient, enabling critical sectors to remain well-supported amid shifting geopolitical and economic conditions.





## RETAIL SECURITISATION: MARKET SUSTAINS MOMENTUM IN Q1FY26 WITH Rs. 52,000 CRORE OF VOLUMES

In the first quarter of FY26, India's retail asset securitisation market continued to show strength and stability, clocking in a total volume of Rs 52,000 crore. This includes both Pass-Through Certificate (PTC) issuances and Direct Assignment (DA) deals, marking a modest 6% growth over Q1FY25. The steady momentum reflects the continued demand for credit, investor confidence, and originators' efforts to diversify funding sources.

A landmark development this quarter was the launch of India's first Residential Mortgage-Backed Securitisation (RMBS) transaction by RMBS Development Company Limited. Notably, this was also the first deal executed via the Electronic Book Provider (EBP) platform, signalling a shift toward more transparent and accessible securitisation practices. This move is expected to broaden investor participation in mortgage-backed securities and foster innovation in long-term funding instruments.

One of the most notable shifts in Q1FY26 was the rise of PTCs, which made up 56% of total volumes, overtaking DAs that traditionally dominated the market. This change

suggests a growing preference for standardised, tradable instruments among investors and a strategic push by originators to tap into a broader investor base.

In terms of asset classes, Asset-Backed Securitisation (ABS) pools led the way, contributing nearly 75% of PTC volumes, with vehicle loans being the most significant component at Rs 14,600 crore (around 51%). However, there's a visible diversification trend, with unsecured personal and business loans and gold loans gaining traction, together making up about 15% of PTC issuances.

The Microfinance Institutions (MFIs) also saw a resurgence, with their share in PTC volumes rising to 15%, up from 8% in Q1FY25—indicating renewed investor trust in the sector.

On the DA side, mortgage-backed transactions remained dominant, accounting for 67% of volumes, while ABS and MFI-backed DAs made up 26% and 7%, respectively.

### Outlook

CareEdge Ratings anticipates moderate growth for the retail securitisation market in FY26. The successful RMBS listing and increased MFI participation are expected to deepen investor engagement and diversify funding avenues. As the market leans toward more transparent and standardised instruments, it's poised for greater innovation, broader participation, and long-term resilience.



# SOWING UNCERTAINTY: CHINA'S SILENT DISRUPTION OF INDIA'S DAP AND SPECIALITY FERTILISER SUPPLY



China has strategically extended its influence over global supply chains by targeting fertilisers, after earlier restricting rare earth elements. The limited supplies of di-ammonium phosphate (DAP) from China since 2023, with a complete halt by early 2025, appears to be a selective disruption, coinciding with the kharif season when fertiliser application is crucial.

The halt underscores India's import-dependent agri-input chain, raising concerns about availability, pricing, and supply security. In response, India has secured a five-year DAP import deal with Saudi Arabia for 3.1 million tonnes annually (~30% of its requirement), signalling a decisive shift towards supply diversification.

## India's Import Dependency

India consumes over 60 MT of fertilisers annually, with speciality fertilisers at 1.2-1.5 MT. Around 25-30% of speciality demand is met through imports. DAP consumption was 8.91 MT in 2025, with 51% (4.56 MT) imported.

For DAP, China was historically among India's primary sources, backed by its pricing, large-scale production, and integrated supply chains. However, its role has diminished since the imposition of export restrictions in 2023. Other import destinations have stepped in to partially fill the gap (refer to Exhibit 2), though few match the scale, pricing efficiency, or formulation diversity that Chinese manufacturers have traditionally offered.

## The China Factor

This unofficial halt aligns with China's broader strategy of informally restricting

exports of critical goods without formal trade bans—a pattern previously observed in rare earth magnets, electronic components, and active pharmaceutical ingredients (APIs). As a result, global DAP prices surged from US\$633 in January to US\$800 by July 2025, which is expected to significantly increase the government's fertiliser subsidy.

India is actively diversifying fertiliser imports beyond China by engaging with countries like Russia, Morocco, and GCC members. In parallel, India is expanding domestic DAP production through capacity additions, backwards integration, and the adoption of advanced technologies.

## CareEdge Ratings View

"This episode should serve as a strategic inflexion point in India's fertiliser policy. The push toward self-reliance under Aatmanirbhar Bharat must now translate into tangible outcomes in both speciality fertilisers and core nutrients, such as DAP—through targeted investments, innovation-led growth, and institutional support," said Puneet Kansal, Director at CareEdge Ratings.

India ranks among the world's top two consumers of fertilisers by total nutrient volume, and the current supply disruption threatens not only crop yields but also the progress made in enhancing soil health, which is vital for precision and sustainable farming. A prolonged shortage could jeopardise food security and impact the livelihoods of millions. Yet, this crisis presents a unique opportunity. With China pausing fertiliser supplies, Indian manufacturers are stepping up to bridge the gap, which will not only benefit them but also drive innovation, particularly through the adoption of advanced technologies and the development of new formulations," said Priti Agarwal, Senior Director, CareEdge Ratings.



## FGD IMPLEMENTATION WAIVER: A BREATHER FOR IPPS

Coal-based power generation remains the backbone of India's power generation sector, accounting for approximately 75% of the total generation in FY2025, despite having a share of only 47% of the total installed capacity. This is primarily due to the higher Plant Load Factor (PLF) of coal-based plants compared to renewable and hydroelectric sources. Notwithstanding the focus on renewable capacity addition in the future and lower coal-based capacity addition, the share of coal-based plants in generation is expected to remain significant, at around 60% by FY2030. Furthermore, given that absolute energy consumption is going to increase, the overall offtake of thermal power will remain significant at around 1,233 billion units in FY2030.

A side effect of a high share of coal-based power plants in the generation mix has been the detrimental impact on the environment since coal-based power plants are major contributors to air pollution, accounting for nearly 50% of Sulphur Oxide (SOx) and 30% of Nitrogen Oxide (NOx) emissions as per the IEA 2015 study. To curb these emissions, the Ministry of Environment & Forests

(MoEF) introduced stricter emission norms in 2015, particularly for projects commissioned after January 2017. In compliance with regulations, thermal power producers were required to install Flue Gas Desulphurization (FGD) systems, resulting in significant capital investments.

### Challenges Faced in FGD Implementation

The implementation of Flue Gas Desulphurization (FGD) systems in coal-based thermal power plants has witnessed slow progress due to a lack of clarity on cost recovery mechanisms, limited financing options, and operational constraints such as insufficient space and the need for plant shutdowns. The timeline for implementing FGD has been extended several times in the past. The MoEF notification in December 2024 had categorised projects into A, B, and C based on location, with plants in metros and cities with over a million population (Category-A) to comply first by December 31, 2027, followed by those in critically polluted regions (Category-B) by December 31, 2028, and all the remaining units (Category-C) by December 31, 2029.

According to the Ministry of Power's reply in the Rajya Sabha on December 16, 2024, 537 units with 204 GW capacity were identified for FGD. Only 22.59 GW (11%) had installed FGDs; 102 GW were under contract or implementation, and about 79 GW were in pre-tendering or tendering. Power producers raised concerns about the project and the mismatch between the project's lifespan and the equipment's lifespan. Limited vendor capacity (16-20 GW annually) caused

supply constraints. Lenders hesitated over regulatory uncertainties for capital recovery. Procurers faced higher tariffs and plant downtime during the implementation of FGD.

**Exemption to Category C Plants vide MoEF Notification**

The Ministry of Environment, Forest and Climate Change (MoEF), vide its notification dated 11th July 2025, has issued significant amendments to the Flue Gas Desulphurisation (FGD) norms, particularly concerning the SO<sub>2</sub> emission standards for coal and lignite-based thermal power plants (TPPs). The revised framework introduces differentiated timelines based on the plant's location and operational status, aiming to ensure practical compliance while considering environmental priorities.

Under revised norms, TPPs are categorised into three groups. Category A plants near NCR or large cities must meet SO<sub>2</sub> standards by December 31, 2027. Category B plants near polluted areas are assessed case-by-case and must comply by December 31, 2028, if required. Category C plants outside sensitive zones are exempt from SO<sub>2</sub> compliance if they follow stack height norms by December 31, 2029, per 1990 CPCB standards notification.

For the retiring units, the notification provides relaxation. Plants that officially declare retirement before 31st December 2030 are not required to comply with SO<sub>2</sub> norms, provided they submit a formal undertaking to the Central Pollution Control Board (CPCB) and the Central Electricity Authority (CEA). However, in case these units continue to operate beyond the declared retirement date without meeting the norms, they will be liable to pay an environmental compensation of up to Rs 0.40 per unit of electricity generated.

To enforce accountability among non-retiring and non-compliant plants, the notification introduces a graded environmental compensation structure. These revisions aim to strike a balance between environmental protection and practical implementation, offering relief to older plants while enforcing stricter norms in environmentally sensitive areas.

**Penalty for non-compliance with FGD norms**

Non-Compliant operation beyond the Timeline	Environmental Compensation (Rs /kWh)
0-180 days	Rs 0.20
181-365 days	Rs 0.30
366 days and beyond	Rs 0.40

**Cost and Tariff Impact of FGD Installation in Thermal Power Plants**

Recent amendments by MoEFCC on July 11, 2025, changed FGD cost dynamics in thermal power plants. Category C units, about 145 GW, are now exempt from FGD. Previously, the sector's estimated FGD capex was Rs 1.3 to Rs 1.8 lakh crore, at Rs 0.6 to Rs 0.8 crore/MW. Excluding Category C, the capex is expected to drop by Rs 87,000 to Rs 1,16,000 crore.

This regulatory shift is expected to ease the pressure on power tariffs, as the compensation for FGD would range between Rs 0.17 and Rs 0.22/kWh, due to FGD-related costs such as higher fixed charges, O&M expenses, and additional auxiliary power consumption. This development not only alleviates the financial burden on power producers but also provides relief to consumers by helping stabilise electricity tariffs while still ensuring targeted SO<sub>2</sub> emission control for high-priority plants. This will result in savings of between Rs 19,000 crore and Rs 24,000 crore in annual tariff expenses, equivalent to a reduction of Rs 0.17 per unit to Rs 0.22 per unit in the tariff.

**CareEdge Ratings View**

“The implementation of FGD by thermal power producers has faced challenges in terms of a mechanism for adequate tariff compensation, financing risk owing to the reluctance of lenders to extend loans and promoters to contribute equity and operational challenges like limited space and shutdown of plants for installation of FGD. The recent amendment by MoEF exempting Category C plants eases the burden on thermal power producers while balancing the environmental aspect by retaining FGD requirement for Category A and B projects,” stated Shailendra Singh Baghel, Associate Director, CareEdge Ratings.

“The exemption of Category C projects from implementation of FGD is a positive for thermal power producers since such projects comprise ~80% of the capacity for which FGD is yet to be implemented. This would also ease the burden of the impending tariff hike to compensate for the FGD capital expenditure,” stated Sabyasachi Majumdar, Senior Director, CareEdge Ratings.

## HEAT MAP AND PROJECTION TABLE

		Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
PMI-M	Unit	58.1	57.5	56.5	57.5	56.5	56.4	57.7	56.3	58.1	58.2	57.6	58.4	59.1
PMI-S	Unit	60.3	60.9	57.7	58.5	58.4	59.3	56.5	59.0	58.5	58.7	58.8	60.4	60.5
GST Collections	Rs lakh crore	1.8	1.7	1.7	1.9	1.8	1.8	2.0	1.8	2.0	2.4	2.0	1.8	2.0
E-Way Bill	Crore	10.5	10.5	10.9	11.7	10.2	11.2	11.8	11.2	12.5	11.9	12.3	11.9	13.2
Air Passenger Traffic	Crore	3.2	3.3	3.2	3.4	3.5	3.8	3.7	3.5	3.6	3.6	3.5	3.4	
PV Sales	Lakh	3.6	3.7	3.8	4.1	3.6	3.5	4.1	3.9	4.1	3.6	3.7	3.5	3.7
2-3-Wheeler Sales	Lakh	18.5	21.5	25.0	26.3	20.5	15.6	19.9	18.6	21.1	19.0	21.2	20.5	21.1
Tractor Sales	Lakh	0.7	0.6	1.1	1.5	0.8	0.6	0.7	0.7	0.9	0.9	1.0	1.2	0.7
IIP	y-o-y%	5.0	0.0	3.2	3.7	5.0	3.7	5.2	2.7	3.9	2.6	1.9	1.5	
Core Sector	y-o-y%	6.3	-1.5	2.4	3.8	5.8	5.1	5.1	3.4	4.5	1.0	1.2	1.7	
Power Consumption	y-o-y%	8.2	-4.9	0.6	1.1	4.0	5.9	2.7	-0.8	6.7	2.2	-4.9	-1.5	2.1
Petroleum Consumption	y-o-y%	10.7	-3.1	-4.4	4.1	10.6	2.0	3.0	-5.2	-3.1	0.2	0.7	1.4	-4.0
Outstanding Bank Credit - Total	y-o-y%	13.6	13.6	13.0	11.7	12.1	11.2	11.4	11.0	11.0	10.3	9.0	9.5	
Capital Goods Import	y-o-y%	6.2	8.7	8.6	4.1	5.5	4.9	15.5	-0.5	8.6	21.5	14.3	2.6	
Merchandise Exports	y-o-y%	0.6	-9.9	-0.3	16.6	-5.3	-1.5	-2.6	-11.1	0.7	8.6	-2.8	-0.1	

Indicator	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26 Forecast
Gross Domestic Product (y-o-y%)	6.8	6.5	3.9	-5.8	9.7	7.6	9.2	6.5	6.4
CPI Inflation (y-o-y%)	3.6	3.4	4.8	6.2	5.5	6.7	5.4	4.6	3.1
Fiscal Deficit (As % of GDP)	3.5	3.4	4.6	9.2	6.8	6.4	5.6	4.8	4.4
Current Account Balance (As % of GDP)*	-1.8	-2.1	-0.9	0.9	-1.2	-2.0	-0.7	-0.6	-0.9
Rupee (USD/INR) (Fiscal year-end)	65.0	69.2	75.4	73.5	75.8	82.2	83.4	85.5	85-87
10-Year G-Sec Yield (%) (Fiscal year-end)	7.3	7.5	6.1	6.3	6.8	7.3	7.1	6.6	6.0-6.2

\*(-) Deficit / (+) Surplus; Fiscal deficit data for FY26 is budget estimate.

### 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 strong position across the segments. 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. For more information: [www.careedge.in](http://www.careedge.in).

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