

**CPI INFLATION AT 3.6% WITH HOLY MAHA KUMBH HAVING SOBERING IMPACT ON ITEMS LIKE GARLIC CONSUMPTION..IMPACT OF RUPEE DEPRECIATION WILL BE VISIBLE IN COMING MONTHS.. EXPECT 2 SUCCESSIVE RATE CUTS IN APRIL & JUNE..CUMULATIVE 100 BASIS POINTS RATE CUT LOOKS THE BASE CASE NOW**

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Backed by uber softening Food & Beverages inflation (185 bps m-o-m to 3.84%), CPI inflation moderated to 7-month low of 3.6% in Feb'25. Food inflation was led by sliding vegetable CPI, slipping into negative territory to 1.07% after 20 months, with ~80% of such decline attributed to three vegetables only (garlic, potato, tomato). Interestingly, the maximum decline is in garlic, possibly reflecting the lower consumption of non-veg items during the holy Maha Kumbh period. However, the fruit component is still hovering higher (14.8%) than same month last year (4.8%), and last financial year average (5.5%). Again, such an increase in fruit consumption might be attributed to Maha Kumbh period possibly because of fasting. While overall inflation moderated, the core inflation crossed the 4.0% mark after 14 months to 4.08%.

Going ahead, CPI inflation may come down to 3.9% in Q4 FY25 and average to 4.7% in FY25. We expect FY26 inflation may come to 4.0-4.2% and core inflation in the range of 4.2% to 4.4%. With benign inflation this month and going forward, we expect a cumulative rate cut over the cycle could be at least 75 basis points, with successive rate cuts in next policy April and August 2025. With an intervening gap in Aug'25, the rate cuts cycle could restart from Oct'25.

Through the latitude, there are 12 states, where inflation in rural areas is higher than the all India rural inflation. Similarly, there are 10 states where urban inflation is higher than all India urban inflation. Rural inflation continued to outpace urban inflation, due to the higher food prices and differential basket weightage.

In lockstep with easing inflation, IIP showed a stronger-than-expected performance in Jan'25, expanding by 5.0% (3.2% in Dec'24). The growth was driven by robust performances in the manufacturing (5.5% growth) and mining (4.4%) sectors though during Apr-Jan'FY25, IIP growth works out to be 4.2%, down from 6.0% in the corresponding period last year.

Despite the overall decline in CPI inflation, the share of imported inflation in the CPI inflation continues to rise, from 1.3% in June 2024 to 31.1% in Feb 2025, anchored by rise in precious metal prices, oils and fats and chemical products. Thus, the pass through of rupee depreciation will be visible in coming months which may push the CPI inflation up.

Improved margin, comfortable interest coverage coupled with downward rate cycle augurs well for Indian inc. for a capex ride as around 4000 Corporate in listed space reported revenue growth of 6.2% while EBIDTA and profit after tax (PAT) grew by around 11% and 12% respectively in Q3FY25 as compared to Q3FY24.

### CPI INFLATION MODERATED TO 7-MONTHS LOW TO 3.61% IN FEB-25

- ◆ India's CPI inflation moderated to 7-month low of 3.6% in Feb'25 due to easing in food inflation. Food & Beverages inflation eased by 185 bps (m-o-m basis) to 3.84% in Feb owing to sharp moderation in vegetable prices. Vegetable CPI, declined sharply and slide into negative territory to 1.07% after 20 months. Among vegetables, the 80% of m-o-m decline is attributed to three vegetables only (garlic, potato, tomato).
- ◆ Fruits inflation jumped to more than 10-year high to 14.82%. Fuel & light deflation is still continued for 18 straight months. The deceleration in consumption non-veg item inflation (Egg/Meat/Fish) may be due to Maha Kumbh.

### Top 5 Contributors in Vegetable deflation (weighted contribution%)

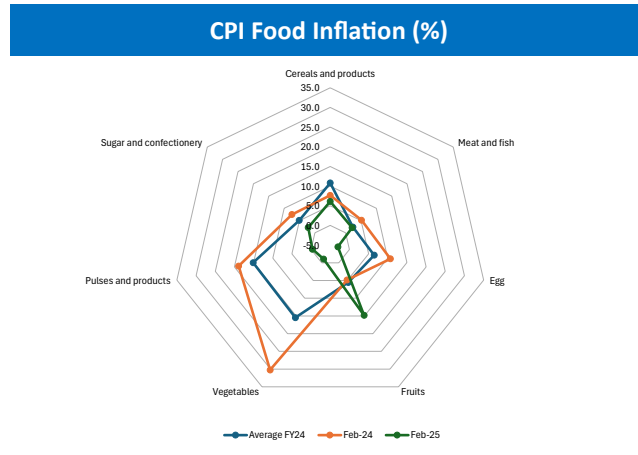
Items	Weight in CPI	Jan-25	Feb-25	change in bps
Vegetables	6.0	0.7	-0.1	-79
of which , garlic (gm)	0.3	0.2	-0.2	-36
potato	1.0	0.4	0.2	-18
tomato	0.6	0.0	-0.1	-11
peas	0.1	0.0	0.0	-3
cabbage	0.2	0.0	0.0	-3
<b>Headline CPI</b>	<b>100.0</b>	<b>4.3</b>	<b>3.6</b>	<b>-65</b>

Source: SBI Research

- While overall inflation moderated, the core inflation crossed the 4.0% mark after the 14 months and stood at 4.08%.

**CPI FOOD INFLATION**

- The radar graph provides a clear visual representation of how the different food categories contribute to CPI food inflation. It also allows us to gauge relative volatility or sharp variations among the food components. From the graph, it is evident that the steep fall in food inflation has been mainly contributed by the fall in vegetables (green dot of vegetables lies in the lower most ring indicating fall in inflation as compared to previous year—represented by orange dot in the outermost ring). However, the fruit component is still hovering higher (14.8%) than same month last year (4.8%), and last financial year average (5.5%).



Source: SBI Research

**CPI GOING FORWARD & RATE ACTION**

- CPI inflation may come down to 3.9% in Q4 FY25 and averaged to 4.7% in FY25. Based on this trend, we expect FY26 inflation may come 4.0-4.2% and core inflation in the range of 4.2% to 4.4%.
- With benign inflation this month and going forward, we expect a cumulative rate cut over the cycle could be at least 75 basis points, with successive rate cuts in next policy April and August 2025. With an intervening gap in Aug'25, the rate cuts cycle could restart from Oct'25.

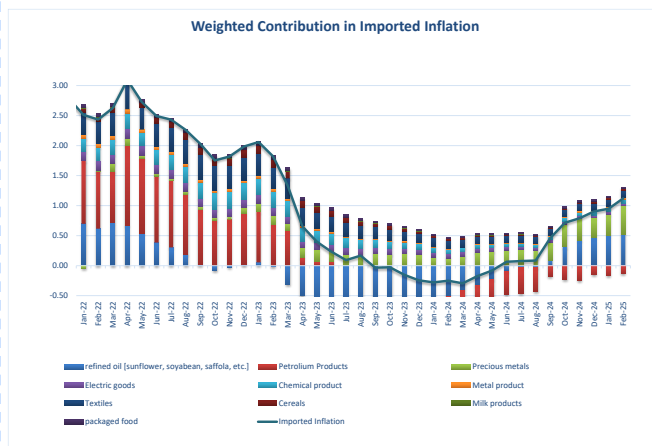
**STATE-WISE CPI INFLATION**

- If we look the State-wise Inflation, inflation in bigger states continue to outstrip the all India inflation rate of the same month. Among the States, Kerala clocked the highest inflation rate of 7.3% in Feb, followed by Chhattisgarh 4.49%.
- There are 12 states, where inflation in rural areas is higher than the all India rural inflation. Similarly, there are 10 states where urban inflation is higher than all India urban inflation. Rural inflation continued to outpace urban inflation which is mainly due to the higher food prices and the rural basket of food items weight (54.2%) is higher than the urban weights (36.3%).

State-wise Inflation Rates: February 2025						
States	Rural	Urban	Overall	Urban minus Rural	Overall minus Rural	Overall minus Urban
Andhra Pradesh	2.1	3.0	2.4	0.8	0.3	-0.5
Bihar	4.3	4.7	4.5	0.4	0.1	-0.2
Chhattisgarh	5.6	3.3	4.9	-2.3	-0.7	1.6
Delhi	2.6	3.5	1.5	1.0	-1.1	-2.0
Goa	6.2	1.5	4.8	-4.7	-1.4	3.3
Gujarat	3.1	3.8	3.0	0.7	-0.1	-0.8
Haryana	4.5	2.8	4.3	-1.7	-0.3	1.4
Himachal Pradesh	3.3	4.0	3.3	0.7	0.0	-0.7
Jammu and Kashmir	4.8	3.2	4.3	-1.6	-0.5	1.1
Jharkhand	2.5	3.5	2.7	1.0	0.2	-0.8
Karnataka	4.6	3.0	4.5	-1.6	-0.1	1.5
Kerala	8.0	4.5	7.3	-3.5	-0.7	2.8
Madhya Pradesh	4.1	9.6	3.4	5.5	-0.7	-6.2
Maharashtra	2.2	2.4	3.1	0.2	0.8	0.6
Odisha	4.3	3.1	3.9	-1.2	-0.4	0.7
Puducherry	4.2	2.8	4.0	-1.4	-0.2	1.3
Punjab	4.3	3.9	3.5	-0.4	-0.8	-0.3
Rajasthan	3.4	2.6	3.0	-0.8	-0.3	0.5
Tamil Nadu	4.1	1.5	4.0	-2.6	-0.1	2.5
Telangana	0.5	4.0	1.3	3.5	0.8	-2.7
Uttar Pradesh	3.8	3.1	3.6	-0.7	-0.2	0.5
Uttarakhand	3.4	3.1	4.0	-0.3	0.6	0.9
West Bengal	3.1	5.0	3.1	1.9	0.0	-1.9
<b>All India</b>	<b>3.79</b>	<b>3.32</b>	<b>3.61</b>	<b>-0.5</b>	<b>-0.2</b>	<b>0.3</b>

**IMPORTED INFLATION SHARE RISING**

- Despite the overall decline in CPI inflation, the share of imported inflation in the CPI inflation continues to rise. The share of imported component has rise from 1.3% in June 2024 to 31.1% in Feb 2025. The rise has been on account rise in precious metal prices, oils and fats and chemical products.



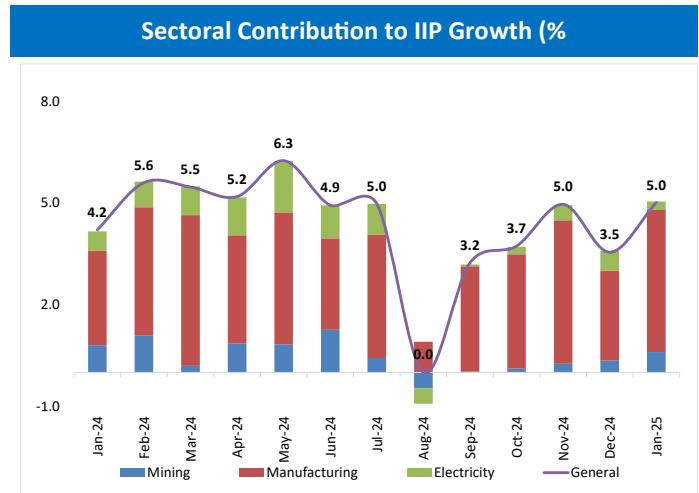
- ◆ The contribution of energy prices to imported inflation remains negative and in declining in absolute amount. Thus, the pass through of rupee depreciation will be visible in coming months which will further push the CPI inflation up.

**IIP EXPANDED 8-MONTHS HIGH IN JAN'25**

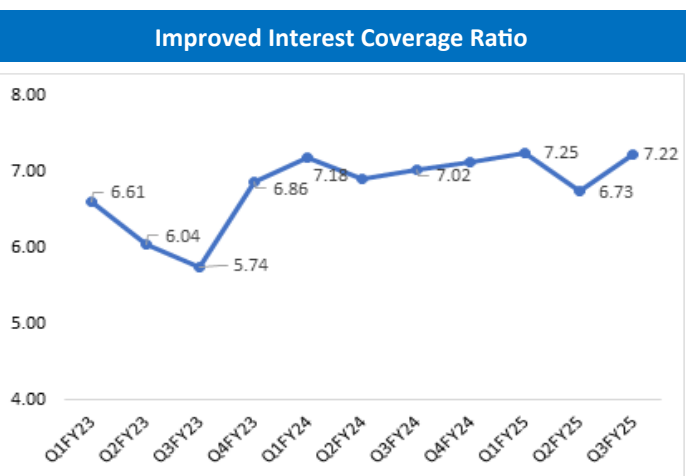
- ◆ Alongside easing inflation, India's industrial output (IIP) showed a stronger-than-expected performance in Jan'25, expanding by 5.0%, compared to 3.2% growth in Dec24. The growth was driven by robust performances in the manufacturing (5.5% growth) and mining (4.4%) sectors.
- ◆ During Apr-Jan FY25, the IIP growth works out to be 4.2%, down from 6.0% in the corresponding period a year ago.
- ◆ As per use-based classification, the Consumer Durables segment exhibited a modest ascent of 7.2%, whereas Consumer Non-Durables experienced a contraction of 0.2% in Jan'25. The rise in consumer durables signals improving consumer confidence and economic resilience. Primary goods witnessed a growth of 5.5% while intermediate goods rose by 5.23%.

**IMPROVED MARGIN, COMFORTABLE INTEREST COVERAGE COUPLED WITH DOWNWARD RATE CYCLE AUGUR WELL FOR INDIAN INC. FOR A CAPEX RIDE**

- ◆ Around 4000 Corporate in listed space reported revenue growth of 6.2% while EBIDTA and profit after tax (PAT) grew by around 11% and 12% respectively in Q3FY25 as compared to Q3FY24.
- ◆ Further, Corporate ex BFSI represented by more than 3400 listed entities reported revenue and PAT growth of 5% and 9% respectively, in Q3FY25 as compared to Q3FY24. What is pertinent to mention is the same set of corporate reported EBIDTA growth of around 5% in Q3FY25 as compared to negative EBIDTA growth in last two quarters of FY25. At aggregate level, EBIDTA margin improved by around 44 bps in Q3FY25 to 14.84% from 14.4% in Q2FY25.



Source: SBI Research



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- ◆ Sectors such as Capital Goods, Consumer Durables, FMCG, Healthcare, Pharmaceuticals, etc. reported all round growth in key parameters in Q3FY25 as compared to Q3FY24.
- ◆ It is important to note, the interest coverage ratio of listed entities, ex BFSI, improved by 20 bps in Q3FY25 as compared to Q3FY24 with improved margin in Q3FY25 and remain at comfortable level.
- ◆ With balance sheet remain strong, interest coverage comfortable and downward rate cycle, we believe, Indian Inc. are ready for next ride of capex cycle.

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