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Have companies started investing in capital?

Has the investment cycle picked up? This is a question which is being asked all the time and there have always been some conflicting opinion. Announcement of investment plans is one thing, but the same is not always corroborated by borrowings through different channels. The general view is that while the central government has been fairly prompt with capex the same is not broad based when it comes to the corporate sector.

The centre has so far expended 46% of the targeted Rs 7.5 lakh crore of capex in the first 6 months of the year. However, the picture for the states is not that encouraging. Data on progress of spending of states on capex is available for the period April-Sep for 24 states. The total projected expenditure on capital for FY23 for this set of states is to be Rs 6.92 lakh crore which is just a bit lower than that of the centre which is Rs 7.5 lakh crore. The states however have been slower with just 25% of the budgeted amount being spent so far which is Rs 1.8 lakh crore. Hence, there is considerable slack here which needs to be made up during the course of the remaining 6 months of the year.

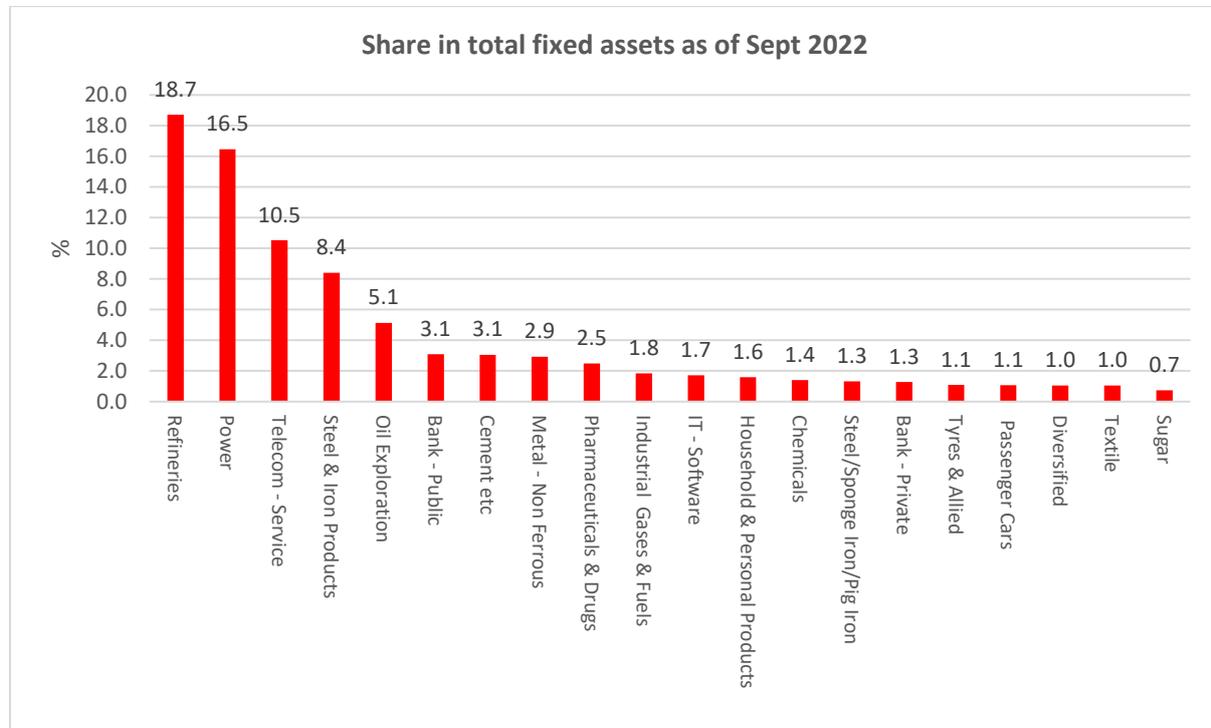
Turning to the corporate sector, the best way to gauge capital formation is to look at the balance sheets of companies which are published for the first half of the year. The sum of gross fixed assets and capital work in progress gives some idea of how their fixed assets have grown over the last few years. Here the picture is quite encouraging in terms of progress though the absolute growth rate per se is quite low. The analysis of movement in fixed assets of the corporate sector is based on a set of 2446 companies across 122 industries.

Total fixed assets (defined as sum of gross fixed assets and capital work in progress) increased from Rs 33.83 lakh crore as of September 2019 to Rs 36.86 lakh crore in September 2022, which is a compound growth rate of 2.9%. Growth in Sept 2022 over Sept 2021 was 5.1% and an improvement over 3.1% registered over 2020 and 0.6% over 2019. So clearly the direction is right though there is a long way to go yet.

The chart below gives the top twenty industries which account for around 85% of total assets of the sample companies. Intuitively these are the sectors which are relatively the heavy investors in capital and would be laying the roadmap for the nations' capex programme.

The top 5 sectors namely, refineries, power, telecom, iron and steel and oil, which are all in the infrastructure space, account for 60% of total fixed assets of the sample companies. This means also that for giving a kick start to the investment cycle in the country it is essential for the thrust to be on infrastructure where the onus is on the government under the prevalent conditions where private sector is still in a wait and watch mode. The role of states to expedite their capex plans is very important here.

The top 20 industries account for 85% of total fixed assets as of September 2022 and 97% of incremental investment made over the last 3 years. This also means that the balance 100 industries in the sample while contributing to capital build-up in the economy would not be the drivers of overall capital formation and the onus is on the top 20 to provide the big push.



Source: BOB Economic research

Growth in fixed assets (GFA plus capital work in progress)

The CAGR in fixed assets was 2.9% for the three year period ending September 2022. Among the top five industries in terms of share in total assets, higher than sample average growth was registered in case of iron and steel (55%), telecom (4.5%) and refineries (3.4%). It was virtually flat in case of oil exploration and 2.6% for power. In the power sector there is already excess capacity for conventional power and fresh investments are more in the solar and wind space.

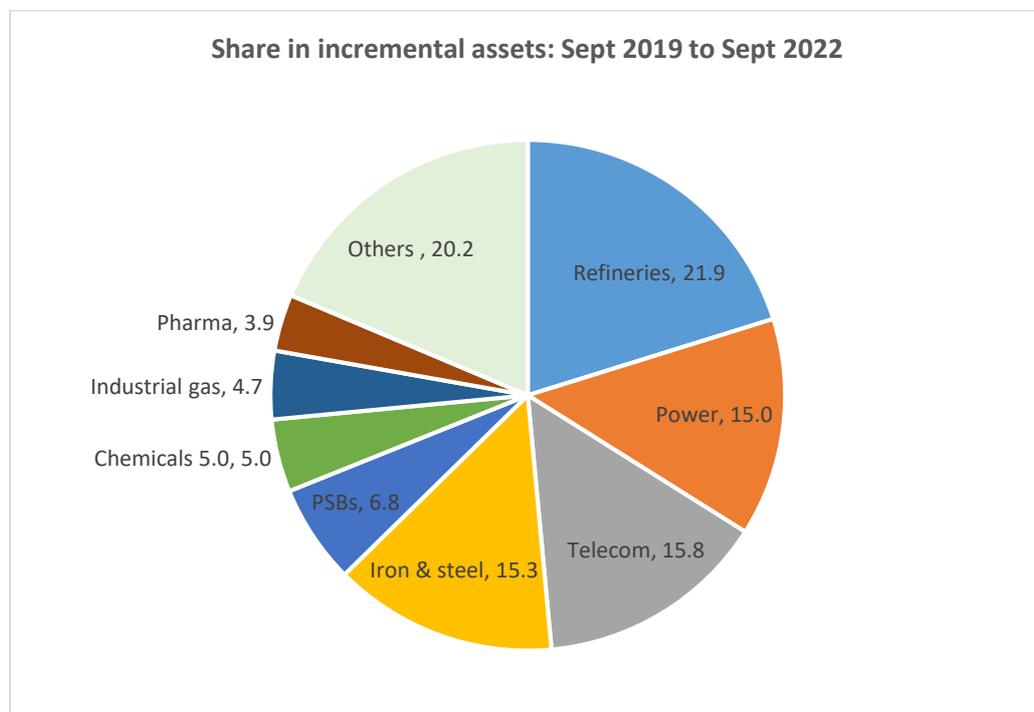
In the next set of top 15 industries, PSBs which have been investing in technology registered high growth of 6.8% (the merger of banks has also increased the assets. In last two years, growth would still be 4.4%), industrial gases 8%, chemicals 12.2%, household and personal products 67.2%, private banks 8.2%, tyres 9.1%, passenger cars 8.4%. There has been a fall in growth in fixed assets in case of non-ferrous metals, IT-software and textiles.

On the positive side, industries which had a small share in total assets but have witnessed very high growth are retailing (12.4%) and gas transmission (10.2%). These are the rising sectors and would be investing more as they expand their activities.

The sectors which have witnessed fall in fixed assets are: automobiles (LCVs/trucks), construction (real estate), shipping, airlines, logistics, hotels, textiles (manmade), electrical machinery, paints, printing, ceramics, glass, broadcasting, film production and telecom equipment. Most of these industries have been affected by the pandemic and changing business environment which followed by the uncertain global conditions have drawn back on investment.

How much has been invested in the last three year?

Incremental assets for the three year period was around Rs 3 lakh crore. The chart below gives the composition of this amount across major industries. Around Rs 2.25 lakh crore has been invested by refineries, telecom, power, iron and steel and PSBs (a part could be attributed to merger of some banks as mentioned before).



Source: BoB Economic research

Concluding remarks

Going forward there is need for big ticket infra based investment required to boost overall capital formation. The manufacturing sector would be investing based on the capacity utilization status; and hence in the very short term will be restricted to the growing sectors. It will not be a broad-based scene to begin with as several industries are still getting to grips with the aftermath of the pandemic where their business was distorted substantially. While the pent up demand story gives hope, it is a good starting point and has to be sustained to realistically drive investment. The big bet would be infra where a longer term view is taken and hence would not be dependent on the current state of the economy.

Appendix: Industry-wise share and CAGR % (September: 2019-22)

Industry	Number	Share in total	CAGR
Refineries	6	18.7	3.4
Power Generation/Distribution	32	16.5	2.6
Telecommunication - Service Provider	9	10.5	4.5
Steel & Iron Products	64	8.4	5.5
Oil Exploration	8	5.1	0.2
Bank - Public	12	3.1	6.8
Cement & Construction Materials	36	3.1	3.2
Metal - Non Ferrous	14	2.9	-1.3
Pharmaceuticals & Drugs	102	2.5	4.7
Industrial Gases & Fuels	8	1.8	8.0
IT - Software	105	1.7	-1.8
Household & Personal Products	17	1.6	0.2
Chemicals	102	1.4	12.2
Steel/Sponge Iron/Pig Iron	11	1.3	-2.8
Bank - Private	22	1.3	8.2
Tyres & Allied	7	1.1	9.1
Automobiles - Passenger Cars	3	1.1	8.4
Diversified	12	1.0	7.6
Textile	113	1.0	-7.6
Sugar	27	0.7	2.5
Cigarettes/Tobacco	3	0.7	3.9
Auto Ancillary	64	0.7	2.3
Fertilizers	23	0.7	-0.9
Automobiles-Trucks/Lcv	4	0.7	-13.9
Engineering - Construction	62	0.5	3.2
Construction - Real Estate	90	0.5	-3.4
Paper & Paper Products	28	0.5	7.3
Gas Transmission/Marketing	5	0.5	10.2
Engineering - Industrial Equipments	73	0.5	1.6
Plastic Products	59	0.5	0.9
Retailing	17	0.4	12.4
Automobile Two & Three Wheelers	6	0.4	4.4
Consumer Food	55	0.4	7.7
Pesticides & Agrochemicals	19	0.4	6.7
Shipping	6	0.4	-6.5
Airlines	6	0.3	-4.6
Logistics	28	0.3	-3.0

Textile - Spinning	39	0.3	0.7
Hotel, Resort & Restaurants	30	0.3	-1.4
Port	2	0.3	-0.7
Aluminium & Aluminium Products	9	0.3	5.0
Hospital & Healthcare Services	17	0.3	2.2
Tea/Coffee	13	0.3	0.8
Mining & Minerals	10	0.1	3.5
Electric Equipment	34	0.2	-1.7
Paints	5	0.2	-1.3
TV Broadcasting & Software Production	19	0.2	-14.0
Telecommunication - Equipment	13	0.2	-10.3
Castings/Forgings	17	0.2	10.3
Batteries	7	0.2	7.5
Miscellaneous	47	0.2	0.4
Edible Oil	12	0.2	2.2
Cable	16	0.2	0.0
Breweries & Distilleries	9	0.2	0.3
Forgings	8	0.2	1.1
Glass	11	0.1	-0.3
Finance - NBFC	149	0.1	8.0
Film Production, Distribution & Entertainment	20	0.1	-16.2
Ceramics/Marble/Granite/Sanitaryware	15	0.1	-0.8
Dyes & Pigments	14	0.1	17.7
Consumer Durables - Domestic Appliances	14	0.1	6.7
Trading	155	0.1	-6.1
Packaging	3	0.1	4.1
Electrodes & Welding Equipment	8	0.1	15.5
Textile - Weaving	10	0.1	-1.4
Insurance	6	0.1	-0.1
Air Conditioners	4	0.1	15.9
Wood & Wood Products	8	0.1	0.9
Ship Building	3	0.1	11.2
Printing And Publishing	17	0.1	-11.5
Finance - Housing	15	0.1	4.6
Automobiles-Tractors	3	0.1	1.3
Carbon Black	2	0.1	3.7
Textile - Manmade Fibres	13	0.1	-2.0
Agriculture	20	0.1	1.3
Fasteners	2	0.1	1.5
Bearings	8	0.0	0.4
Footwear	4	0.0	0.9
Diamond & Jewellery	24	0.0	-1.2
Diesel Engines	3	0.0	-6.2
Finance Term Lending	7	0.0	4.0

Amusement Parks/Recreation/Club	3	0.0	-9.3
Solvent Extraction	12	0.0	7.4
Electronics - Components	13	0.0	3.0
Engineering	15	0.0	-8.8
Ferro & Silica Manganese	5	0.0	-6.4
BPO/ITeS	13	0.0	14.4
Petrochemicals	5	0.0	-0.8
Cycles	1	0.0	-0.6
Finance - Stock Broking	40	0.0	2.9
Compressors / Pumps	7	0.0	-0.8
Finance - Investment	124	0.0	14.6
Railways Wagons	2	0.0	8.7
Rubber Products	10	0.0	13.4
Abrasives	3	0.0	2.7
Defence	1	0.0	-2.3
Textile - Machinery	1	0.0	6.6
Consumer Durables - Electronics	3	0.0	21.6
Lubricants	5	0.0	-0.8
Refractories	5	0.0	8.9
Transmission Towers / Equipment	2	0.0	-0.2
Laminates/Decorative	3	0.0	1.5
Medical Equipment/Supplies/Accessories	2	0.0	24.0
Travel Services	3	0.0	4.4
Finance - Others	9	0.0	-2.9
Finance - Asset Management	4	0.0	-2.7
IT - Hardware	9	0.0	7.3
Aquaculture	2	0.0	-0.7
IT - Education	6	0.0	0.5
Courier Services	1	0.0	-8.4
Printing & Stationery	5	0.0	-6.2
Educational Institutions	9	0.0	-15.1
Leather	4	0.0	5.2
Watches & Accessories	2	0.0	0.8
Ratings	2	0.0	-4.5
Floriculture	2	0.0	167.7
IT - Networking	2	0.0	-7.7
Metal - Ferrous	4	0.0	-6.6
e-Commerce	1	0.0	24.6
Photographic Products	2	0.0	-5.9
Automobiles - Dealers & Distributors	1	0.0	-47.6
Grand	2447	100.0	2.9

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5143

chief.economist@bankofbaroda.com

aditi.gupta3@bankofbaroda.com