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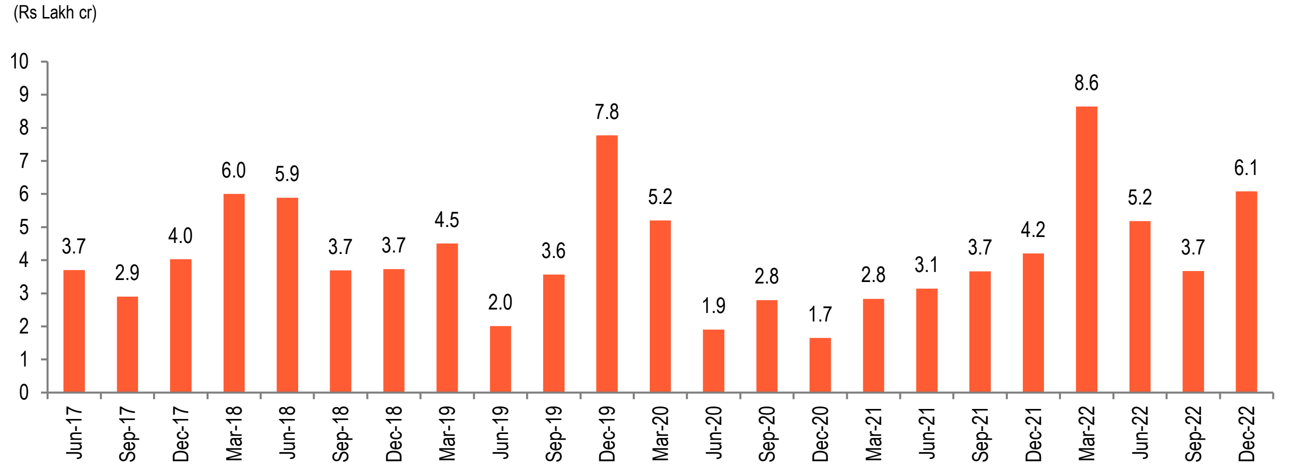
Is Investment set to pick up?

The New Year has started with positive news emerging on the investment side. This has been reflected by the CMIE data on new investment announcements made by firms for Q3FY23, which may be interpreted as investment intentions by firms, and could possibly reflect pick up in investment activity. Furthermore, the possible extension of PLI scheme in other sectors also bodes well for the investment cycle.

Chart 1: New Investment announcement has picked up pace



Source: CMIE, Bank of Baroda Research

The chart explains new investment announcements across quarters for the last 5-years. New investment announced accelerated sharply to Rs 7.8 lakh cr in the December quarter of 2019. However with onset of Covid-19 pandemic and lockdown restrictions imposed across the country, investment took a back seat as has been visible with moderate pace of new investment till Dec'21. With reopening of economy gradual pickup in economic activity, new investment announced peaked at Rs 8.6 lakh cr in Mar'22. Since then, in Q1FY23 and Q2FY23 a dip in new announcements was noticed. However, things are now beginning to look optimistic. As of Dec'22, there has been as steady pick up in new announcements and stands at around Rs 6.1 lakh cr compared with Rs 3.7 lakh cr in Sep'22 and Rs 4.2 lakh cr in Dec'21.

On a cumulative basis, total investment announced has grown by over 36% in Apr-Dec'22 compared with last year. It is Rs 15 lakh crore for the 9-month period compared with Rs 11 lakh core last year. In fact the Rs 15 lakh crore of announcements made in Fy23 so far is the highest in the last 5 years.

Sectors showcasing intentions

The table below talks about the sectors that have shown interest in investment with their announcements for the cumulative period of Apr-Dec'22. The important takeaways are:

- Chemicals and related products along with machinery accounted for 54.1% share of total new announcements made.
- The chemical and related sector has witnessed an uptrend in terms of new announcements, its share had been relatively lower previously.

- For power sector, the share of new announcements has been growing at a healthy pace in Apr-Dec’22 (27.4%).
- Share of new announcements in metal sector has registered dip in Apr-Dec’22 period compared with last year for the same period.
- Transport services (mainly airlines) used to account a bigger share of pie in terms of new announcements. However, its share of new announcements has declined the most for Apr-Dec’22, if compared with last 3-years.
- Construction and real estate sector has been disappointing too as the share of new investment projects have dwindled this time. Thus signaling not many new projects have not been launched.

Table 1: Shares of sectors in total new investment projects announcements: Apr-December (%)

	Apr-Dec’22
Non-financial sector	100.0
Manufacturing	**64.9**
Food & agro-based products	0.7
Textiles	0.4
Chemicals & chemical products	**39.5**
Consumer goods	0.5
Construction materials	0.7
Metals & metal products	4.2
Machinery	14.6
Transport equipment	3.1
Miscellaneous manufacturing	1.2
Mining	**0.9**
Electricity	**27.4**
Services (other than financial)	**6.1**
Hotels & tourism	0.1
Wholesale & retail trading	0.2
Transport services	1.8
Communication services	0.1
Information technology	2.0
Miscellaneous services	1.8
Construction & real estate	**0.7**

Source: CMIE

It has also been seen that while investment announcement are made, they do not necessarily materialize as can be seen from the gross fixed capital formation rate which has been stagnant in the region of 27-29% in the last 5 years. In this context it would be relevant to look at the funding side where banks are important players.

The latest sector-wise data on banking business shows that non-food credit has grown by 8.9% on a year to date basis ending November 18 2022. The figure for last year was 1.8%. (Data up to December 16 suggests growth increased further to 10.6% as against 3.3% last year).

The pattern of growth for November is interesting as the growth rate in all the four segments are higher than that of last year, which is encouraging. A revival in growth in credit to large industry shows a reversal and needs to be monitored closely as growth of 4.3% comes over a negative growth last year. The table below gives the growth numbers (YTD) for these segments.

Table 2: Growth in credit (YTD) November 18 over March-end

	2021	2022
Non-food credit	**1.8**	**8.9**
Agriculture	***5.5***	***9.1***
Industry	***-0.7***	***4.4***
Micro and small	7.4	4.4
Medium	25.0	4.0
Large	-3.7	4.3
Services	***-1.5***	***9.9***
Trade	0.7	5.4
NBFC	-3.4	19.2
Personal	***5.7***	***12.4***
Durables	36.6	29.1
Homes	6.4	9.5
Vehicles	3.7	16.2

Source: RBI

While there has been improvement in growth in credit to industry, it is still the lowest performer as the other segments have grown at higher than the overall growth rate of 8.9%. The progress on the whole is nonetheless satisfactory given that the RBI has increased interest rates since May 2022. The table below provides a view on the changes in certain benchmarks as reported by the RBI for different headings between April and November.

Table 3: Movement in some key benchmark rates (%)

Month	WALR (o/s)	WALR (fresh loans)	WADTDR	Repo	Median MCLR 1 year
April	8.72	7.51	5.03	4.0	7.25
November	9.43	8.86	5.62	6.25	8.21
Change bps	*71*	*135*	*59*	*225*	*96*

Source: RBI

The responsiveness of bank interest rates to repo rate changes has been varied. On fresh loans the weighted average lending rate was up by 135 bps as retail and SME loans are largely benchmarked with this rate. In case of outstanding loans, the increase was by just 71 bps. However, for term deposits the weighted average terms deposit rate was up by 59 bps as only fresh and renewed deposits get the benefit of higher rates announced by banks. In terms of the 1year MCLR the increase was around 96 bps.

Corporate loans would typically be affected by the MCLR and hence the cost has not increased commensurately with the repo rate hikes of RBI. This being the case it would be interesting to see which industries have clocked growth rate of above 4.4%.

- The industries which clocked double digit growth were beverages and tobacco (10.3%), glass and glass products (11%), petroleum products (38.1%), chemicals (10%) and airports (36.5%).
- Growth was also higher than average in case of wood and wood products (8.6%), cement (6.8%), base metals (7.9%), rubber, plastic products (5.5%), mining (6.5%) and electronics (4.8%).

A similar picture was also seen in the corporate bond market. As per CMIE data for the first 9 months of the year, issuances were Rs 5.45 lakh crore as against Rs 4.60 lakh crore in 2021. Of this, 71% or Rs 3.87 lakh crore was raised by the financial services sector. Manufacturing contributed to just 6.1% led by chemicals and metals as was also reflected in the bank credit profile. Non-financial services had the second highest share of 17.3%.

Concluding remarks

The picture emerging is that the new announcements made by companies does reflect optimism and the various policies that have been introduced has had the preliminary effect. However, the fructification of the same would need to be monitored.

Concomitantly looking at the funding side, growth in credit has, till November, been lower than aggregate credit for industry giving the sense that while there are intentions to invest, the plans may not yet be in place for implementation. Within industry however, the chemicals and metals sectors have witnessed traction in terms of growth in credit which can be corroborated with the investment announcements too. The same trend is evident even when the corporate bond issuances are looked at.

The power sector has a high share in new investment announcements. However, the growth in credit has been rather low at 2.1%. This can be an area for banks to expect further traction especially in the renewables space.

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