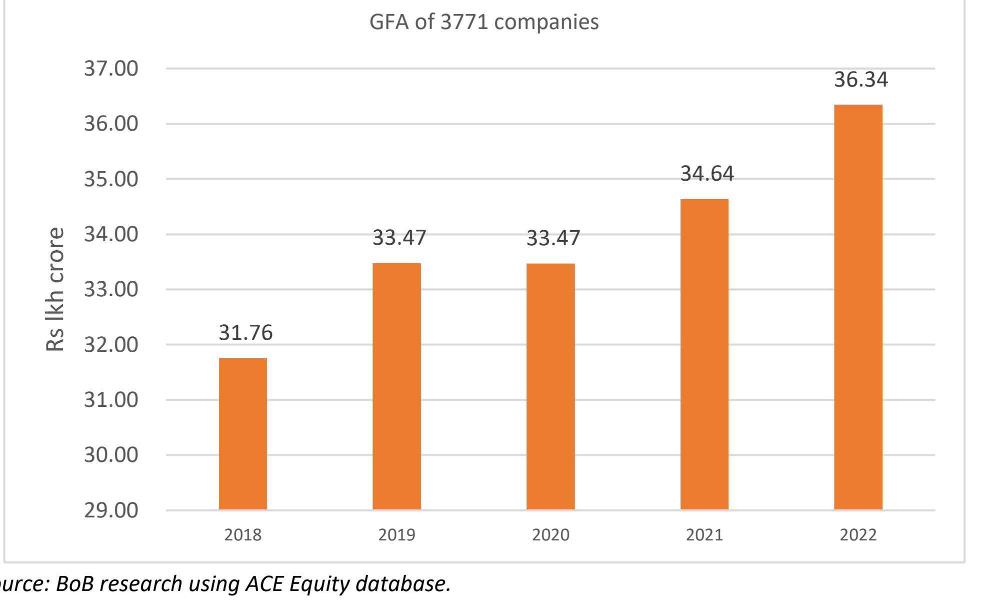
Is investment taking place?

A question often asked is as to whether or not the investment cycle has resumed in India. There are proxies used to denote whether or not companies are investing. Growth in bank credit or issuances in the debt market are good indicators on the funding side. But, at the end of the day we should see assets in the form of machinery or buildings coming up. Construction is another indication of investment being made, which is largely under the domain of the government which funds such activity. One way of figuring this out is to see how companies have invested in fixed assets. Here, the balance sheets of companies can be used to ascertain if their stock of gross fixed assets plus capital work in progress has increased over time. Information on assets is available for year ending September 2022 and the analysis here looks at year on year growth rates for increase in GFA (including capital work in progress). The sample used is quite comprehensive as it covers over 3700 companies.

The chart below gives the progress in the GFA of the sample 3771 companies which witnessed an increase from Rs 31.76 lakh crore as of September 2018 to Rs 36.34 lakh crore in September 2022, with the value remaining virtually stagnant as of September 2020. The CAGR for this period was 3.4%. On an annual basis however, there appears to be some traction with growth for September 2021 being 3.5% and September 2022 being 4.9%.

Chart 1: Growth in GFA (Rs lakh crore)

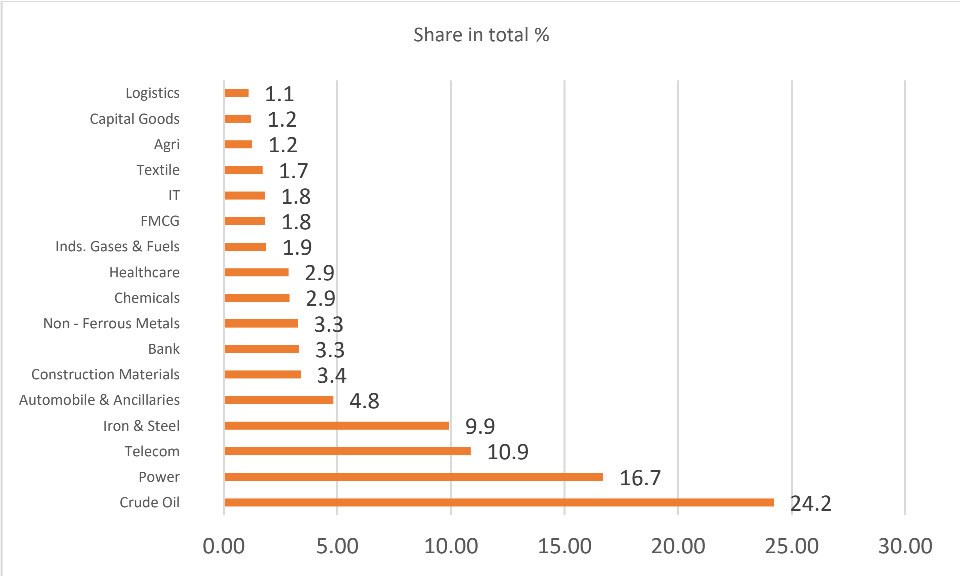


Source: BoB research using ACE Equity database.

Which industries make big investments?

While all companies need to invest to expand production, there has tended to be concertation in certain sectors. The chart below shows that companies in the infrastructure sector accounted for 50% of total GFA of the sample companies. The three sectors, crude oil (24.2%), Power (16.7%) and telecom (10.9%) led the pack followed by iron and steel with 9.9%. Therefore whenever one is to gauge the investment climate it would be essential to see what these Big-4 industries are doing in terms of expansion. The auto sector is the fifth largest sector that has potential to push the needle with a share of 4.8%. Presently there have been problems first on the supply side due to availability of semiconductors during this period; and on the demand side due to growth slowing down due to high inflation which has come in the way of purchasing power.

Share of various industries in GFA as of September 2022 (%)

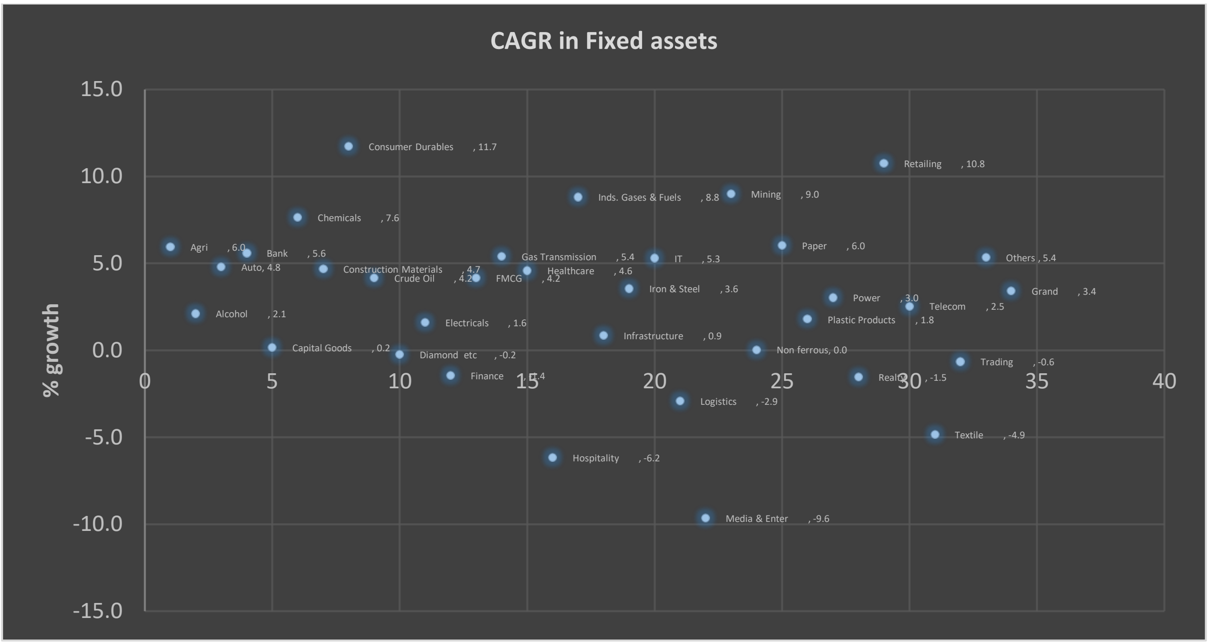


Source: BoB research using ACE Equity database.

As mentioned earlier, CAGR for the sample companies was 3.4% over the 4-years period. The chart below gives the CAGR for various industries during this time frame. Industries which have increased their GFA at a rate higher than the sample were consumer durables, retailing chemicals, industrial gases, mining, agricultural related, banks, FMCG, gas transmission, IT, paper, automobiles, construction materials, healthcare, crude oil and iron and steel. These industries would be the driving factor in future too. Here, there is need for capacity utilization ratios to improve before fresh investment is invoked. This will hold especially for FMCG and consumer durables where production growth has not been smooth.

Telecom and power are two sectors which have high share in total but grew at a lower rate than the sample average. These sectors do have potential to grow faster, especially with the focus on renewables increasing. In case of telecom with 5G being the next big thing, there are expectations that there will be larger doses of investment.

The lower performers which are industries that witnessed negative growth were textiles, media and entertainment, hospitality, real estate, logistics, finance and trading. These were also sectors that were affected quite sharply by the lockdown following covid. With operations now normalizing and these sectors witnessing a surge in business due to pent up demand, one can be optimistic of a further push in investment across these industries.



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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
jahnavi@bankofbaroda.com