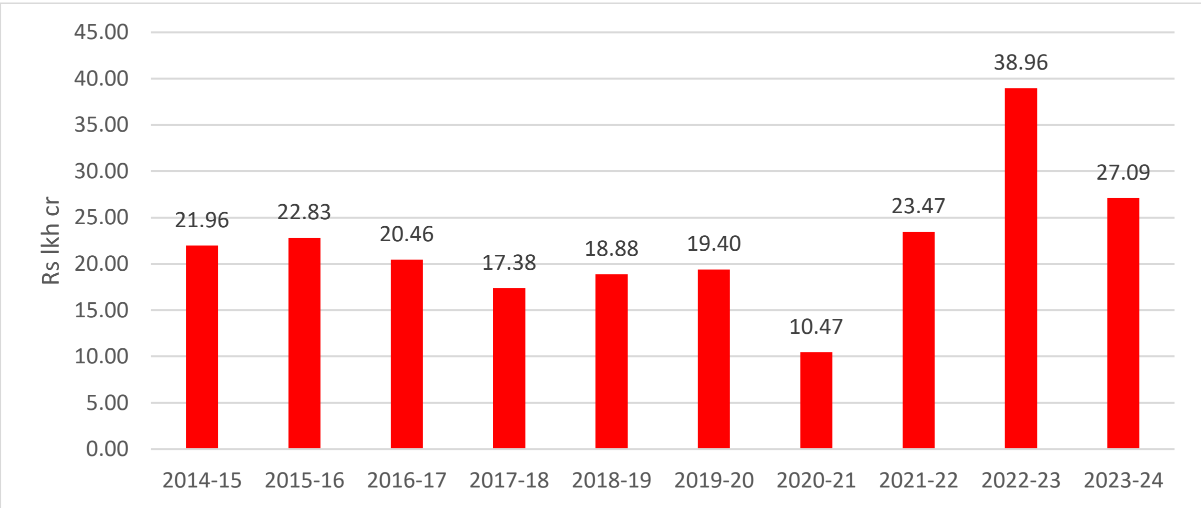
1st April, 2024

Investment intentions in retrospect

NSO data on gross fixed capital formation at current prices indicate that there has been a marginal improvement from 30.8% in 2022-23 to 31.3% in 2023-24. However, there is still a bit of fuzziness on the spread of this investment. It is true that the central government has been increasing its capex; but that does not always get reflected in the private investment levels.

CMIE data on new investment announcements is an indicator of how corporates are looking at capex. The numbers presented are intentions only which may or may not materialize. But they reflect the mood of companies. The overall picture is encouraging as while the intentions have been lower compared with last year, there is substantial improvement compared with even pre-covid times as indicated in the graph below.

Chart1: New investment announcements (Annual) Rs lakh crore

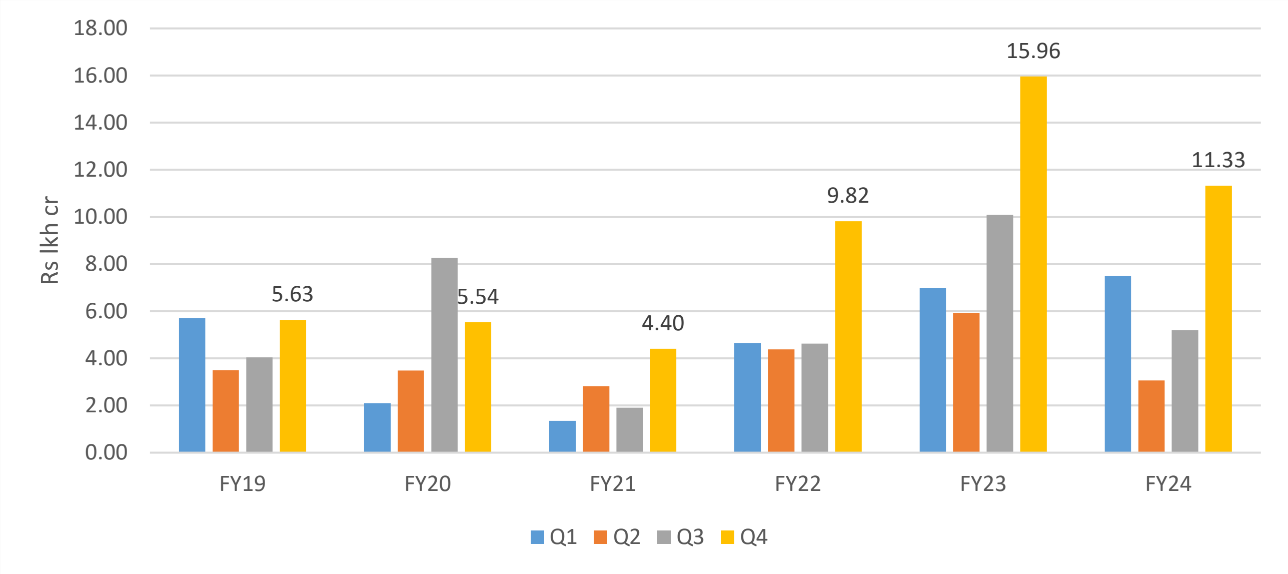


Source: CMIE

The chart shows that the level of Rs 27.1 lkh crore is the second highest in the last 10 years. This is indicative of confidence levels being higher which will hopefully fructify. With GDP growth expected to be maintained in the region of 7.8% next year, it is but natural that support will be provided partly by private investment. There are expectations that both consumption and investment will be better in FY25 relative to FY24. Higher consumption will lead to better utilization of capacity which in turn can trigger higher demand for investment.

The chart below gives an illustration of new investment announcements on a quarterly basis in the last 6 years. Here again the performance in Q4 has been very impressive. It is again lower than the fourth quarter of FY23, but is still very impressive at Rs 11.33 lakh cr. This comes after a lull in Q2 and Q3. There is of course the case of capital plans being expedited in the last quarter of the year which has been witnessed in earlier years too and hence is a seasonal factor. But nonetheless the picture looks positive from the announcements point of view.

Chart 2: New Investment announcements: Quarterly basis: Rs lkh cr



Source: CMIE

Given the higher intentions indicated by companies it is useful to examine which are the industries that have contributed to this increase.

Table 1: Industry-wise investment announcements

Rs lakh cr	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Manufacturing	4.86	3.92	4.28	10.97	14.86	11.02
Chemicals & products	2.54	2.30	1.69	3.21	7.83	5.10
Metals & metal products	0.76	0.59	1.58	2.79	1.70	1.53
Machinery	0.21	0.07	0.28	3.50	3.20	2.63
Transport equipment	0.57	0.50	0.29	0.59	0.81	1.02
Mining	0.39	0.39	0.50	0.38	0.19	0.04
Electricity	3.93	4.13	0.98	5.32	9.65	8.98
Services	7.44	8.22	3.72	6.11	13.68	6.60
Transport services	4.94	6.63	2.03	4.35	11.77	5.44
Construction & real estate	1.96	2.60	0.76	0.66	0.50	0.39
Irrigation	0.30	0.14	0.23	0.03	0.08	0.06
All industries	**18.88**	**19.40**	**10.47**	**23.47**	**38.96**	**27.09**

The table above shows that:

- Three broad segments i.e. manufacturing, electricity and services contributed to the bulk of these intentions.
- But interestingly for FY24, chemicals, electricity and transport (which is mainly airlines) accounted for 72% of total intentions. Their share was lower at 60% in FY19, which is before the pandemic struck.
- The higher share of transport can be attributed to announcements made by airline companies to buy more planes in the coming year.

- Further, the share of construction and real estate was high at 10.4% in FY19 and rose to 13.4% in FY20, but has since then declined continuously to reach 1.4% in FY24 (Annex 1).
- The shares of metals and machinery have been higher in FY21 and FY22 but have moderated subsequently though the latter has increase its share once again to 9.7% in FY24.
- There is hence quite a bit of concentration in the sectors which are related to infrastructure, while consumer oriented industries (not shown here) have very low shares.
- The overall connection with government capex is strong as the spending on roads, railways etc. does engender backward linkages with sectors such as metals, machinery and chemicals.

Annex 1

Share of industries in total new investment announcements

Share in total	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Manufacturing	25.7	20.2	40.8	46.8	38.1	40.7
Chemicals & products	13.4	11.8	16.2	13.7	20.1	18.8
Metals & metal products	4.0	3.0	15.1	11.9	4.4	5.6
Machinery	1.1	0.4	2.6	14.9	8.2	9.7
Transport equipment	3.0	2.6	2.8	2.5	2.1	3.8
Mining	2.1	2.0	4.8	1.6	0.5	0.2
Electricity	20.8	21.3	9.4	22.7	24.8	33.2
Services (other than financial)	39.4	42.4	35.6	26.0	35.1	24.4
Transport services	26.2	34.2	19.4	18.5	30.2	20.1
Construction & real estate	10.4	13.4	7.3	2.8	1.3	1.4
Irrigation	1.6	0.7	2.2	0.1	0.2	0.2
All industries	100.0	100.0	100.0	100.0	100.0	100.0

Source: CMIE

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