

How capital formation of companies fared?

It is often blurry when we speak of the investment picture of Indian economy. Different data points reveal mixed picture. The CMIE data which speak of investment intentions in the economy showed record high new project announcements in FY23, of Rs 29 lakh crore. The MoSPI data on proposed investment which is a bit lagged series (till Jan'23) on the other hand portrayed a flattened investment curve since Sep'22. GFCF which is the fixed investment in assets to GDP ratio on the other hand improved to 29.2% in FY23 from 28.9% in FY22.

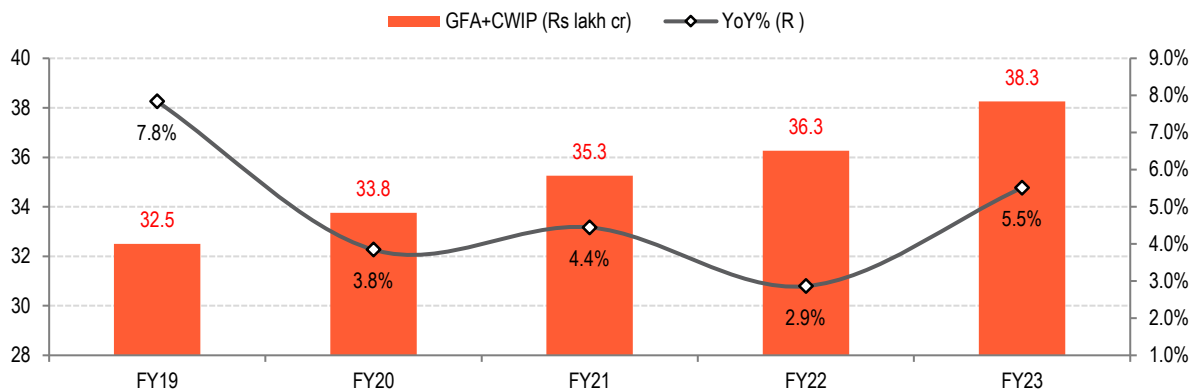
Taking the cue of GFCF in GDP, in this note, an attempt is made to capture the investment (fixed assets) angle from the balance sheet of corporates. We have analyzed balance sheet of 3,420 corporates and looked into the sum of fixed assets and capital work in progress. Further, we segregated it on the basis of ownership pattern and industry, to get a closer look at the level of concentration. A view held is that the PSUs tend to invest more because of the nudge from the government. An industry-wise analysis would reveal which are the sectors that have been investing more in capital. This is a forward looking indicator as GDP data does not provide us with this information or rather the information is lagged (till FY22 this information is available).

Our study shows that the CAGR-5Y period (FY18-FY23) in fixed asset creation of corporates stands at 4.9%, lower than 9.8% CAGR in nominal GDP. Further the concentration ratio is skewed towards only a handful of industries due to their inherent nature such as crude oil, power and telecom. Interestingly, 8 out of this major 15 industries have seen a CAGR below the 5Year industry total CAGR of 4.9%, which is also a concern reflecting slow pace of investment. House or ownership pattern data reveals that the share of PSU and non PSU companies have not changed much in the past 5 years. This seems to be in anomaly with what we have observed in the trend of capex data of Centre.

What to make out of the data:

- Fixed assets of companies have increased to Rs 38.3 lakh crore in FY23 from Rs 36.3 lakh crore in FY22, noting a YoY growth of 5.5% in the same period. However, *the 5Year CAGR stands at 4.9%, which is far lower than the CAGR of 9.8% in nominal GDP during the same period.*
- Even on an incremental basis, in the past 5 years fixed assets of corporates have increased by only Rs 8 lakh crore in our sample.
- *The sectoral picture is skewed towards industries such as crude oil, power, telecom, iron and steel and automobile, dominating 65.3% of fixed asset creation in FY23.* Even historically, major concentration was visible in these sectors, primarily due to their inherent nature of asset creation. But there was no significant change in share during this five-year period.
- Notably, ownership wise there has been no broad change in share of PSU and non-PSU companies, with PSUs having 38.7% share in fixed asset creation and the remaining 61.3% come from non PSUs.

Fig 1. How fixed asset creation of companies moved:

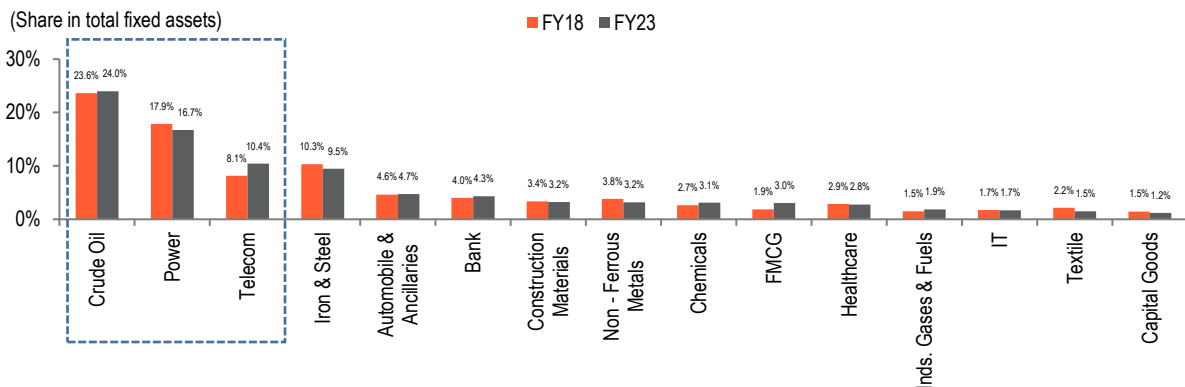


Source: Ace Equity, Bank of Baroda Research, Note: GFA+CWIP: Gross Fixed Assets + Capital Work in progress

Sector wise depiction of fixed asset accumulation:

- Industry wise it’s a much skewed picture. Crude oil, power and telecom encompass 51% of the fixed asset creation space. The shares have not undergone much change since FY18. For sectors such as telecom and FMCG the shares improved, while for power, iron and steel and non-ferrous metal companies the shares have moderated.

Fig 2. How shares have moved sector wise since FY18:



Source: Ace Equity, Bank of Baroda Research

- Interestingly, 8 out of this major 15 industries have seen a CAGR below the 5Year industry total CAGR of 4.9%. Especially for industries such as capital goods, textile, non-ferrous metals, iron and steel and power, 5Year CAGR have remained considerably lower, due to volatility in commodity prices and Covid induced slowdown.
- On an incremental basis in FY23 compared to FY22, fixed assets of power companies have fallen at the sharpest pace of Rs 16,830 crore. This was followed by fall in fixed assets of logistic (by Rs 1,870 crore) and IT (Rs 1,768 crore) companies.
- On the brighter side, fixed assets of crude oil (Rs 64,075 crore), telecom (Rs 59,638 crore,) and automobile (Rs 11,164 crore) companies have increased.

Table 2. Industry wise growth in fixed assets of top 15 industries with highest share

Sectors	Growth in Fixed assets (YoY%), FY22	Growth in Fixed assets (YoY%), FY23	CAGR in fixed asset creation, 5Year period
Crude Oil	-1.7%	7.5%	5.2%
Power	12.0%	-2.6%	3.5%
Telecom	2.6%	17.5%	10.2%
Iron & Steel	2.0%	2.2%	3.1%
Auto	-3.3%	6.6%	5.2%
Bank	5.3%	6.8%	6.4%
Construction	6.1%	3.7%	4.1%
Non - Ferrous Metals	0.7%	4.7%	0.8%
Chemicals	9.9%	7.1%	8.2%
Retail	18.6%	20.9%	15.0%
Consumer durables	15.2%	15.5%	11.5%
Healthcare	3.8%	4.5%	4.2%
Industry Fuels	7.8%	9.4%	9.3%
IT	4.2%	-2.6%	4.7%
Textile	-0.6%	6.5%	-2.4%
Capital Goods	1.5%	5.1%	0.8%

Source: Ace Equity, Bank of Baroda Research, Note: Industries whose 5Year CAGR is less than total CAGR of 4.9% are marked in red

Ownership wise structure:

- In our sample of 3,420 companies, 85 companies have been identified as PSU and the remaining 3,335 companies were classified as non PSUs. The share of both PSUs and non PSUs have not undergone major change since FY18. However, quite significantly these companies account for a large part of the assets of the corporate sector with share of 38.7%. Only between FY22-23, the share of PSUs moderated slightly to 38.7% from 39.7% whereas for non PSUs, the share inched up slightly to 61.3% from 60.3%.
- In 5Year CAGR terms, fixed asset creation of both PSU and non PSUs have remained in line with the total CAGR of 4.9%. However, on an incremental basis, growth in fixed assets of non PSUs were higher at Rs 1.6 lakh crore in FY23 compared to Rs 0.4 lakh crore in FY22, whereas for PSUs it was lower at Rs 0.4 lakh crore in FY23 compared to Rs 0.6 lakh crore in FY22.

Table 2. In FY23, growth in fixed assets of non PSUs showed improvement

Growth in Fixed assets (YoY%), FY23	Share in FY23	FY19	FY20	FY21	FY22	FY23
Non PSU	61.3%	8.7%	2.5%	4.4%	1.8%	7.2%
PSU	38.7%	6.5%	6.0%	4.5%	4.5%	2.9%
Total	100%	7.8%	3.8%	4.4%	2.9%	5.5%

Source: Ace Equity, Bank of Baroda Research

Concluding remarks

The pace of growth in capital in the corporate sector has been uneven over the last 5 years with a CAGR of just 4.9%. PSUs account for around 38% of the total assets as they are concentrated in sectors such as crude oil, power, and banks. Important sectors that have witnessed a higher than average CAGR were crude oil, telecom, auto, banks, retail, chemicals and consumer durables. There is absence of broad-based growth across sectors. Sectors such as hospitality and media witnessed negative CAGR due to closures post lockdown.

Appendix:

Table 3. Fixed Assets industry wise in absolute terms, Rs crore

Sectors	Count of companies	FY18	FY19	FY20	FY21	FY22	FY23
Agri	121	35,728	35,632	42,079	42,159	43,512	45,564
Alcohol	14	5,507	5,880	6,043	6,042	6,203	6,799
Auto	167	1,39,742	1,55,764	1,69,747	1,74,839	1,69,107	1,80,272
Bank	31	1,20,913	1,26,672	1,31,534	1,46,582	1,54,288	1,64,728
Capital Goods	229	43,820	43,839	44,066	42,771	43,424	45,628
Chemicals	206	80,053	89,301	96,121	1,01,072	1,11,123	1,18,983
Construction	87	1,01,401	1,11,839	1,11,762	1,12,486	1,19,298	1,23,712
Consumer Durables	39	4,977	5,481	6,213	6,455	7,437	8,587
Crude Oil	23	7,11,968	7,56,608	8,23,814	8,69,052	8,53,877	9,17,952
Diversified	11	25,295	24,699	26,979	26,908	29,068	32,889
Electricals	43	6,355	7,137	7,316	7,386	7,441	7,475
Finance	439	9,566	10,111	11,777	9,971	11,236	16,243
Gas Transmission	5	12,469	13,110	13,722	14,890	16,850	19,040
Healthcare	186	86,176	89,611	90,874	97,417	1,01,085	1,05,628
Hospitality	64	17,671	14,832	14,495	14,391	14,176	14,314
Industry Fuels	12	45,662	52,040	56,174	60,305	64,995	71,110
Infrastructure	86	20,532	22,850	21,238	21,503	20,721	23,152
Iron & Steel	108	3,10,882	3,09,368	3,18,844	3,48,194	3,55,277	3,62,915
IT	185	51,691	54,075	65,659	64,101	66,772	65,004
Logistics	50	45,037	45,144	46,276	45,507	42,565	40,695
Media & Entertainment	81	23,072	21,633	17,173	14,961	13,948	19,493
Mining	15	19,017	20,806	23,243	24,596	8,858	10,310
Non - Ferrous Metals	37	1,15,990	1,19,691	1,15,240	1,14,449	1,15,225	1,20,690
Paper	44	17,233	17,579	18,498	20,516	21,620	22,199
Plastic Products	100	16,493	17,490	18,135	18,143	19,479	19,100
Power	34	5,38,269	5,56,706	5,71,324	5,86,110	6,56,705	6,39,875
Realty	128	8,917	8,864	9,321	8,054	8,411	9,125
Retailing	23	8,352	9,741	10,621	11,688	13,865	16,768
Telecom	25	2,44,966	3,52,241	3,38,110	3,30,143	3,38,759	3,98,128
Textile	292	64,946	65,770	64,634	54,327	53,975	57,472
Trading	230	4,203	4,201	4,155	4,685	4,774	4,654
Total	3420	30,14,094	32,50,309	33,75,282	35,25,301	36,26,219	38,26,112

Source: Ace Equity, Bank of Baroda Research

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5794

chief.economist@bankofbaroda.com

dipanwita.mazumdar@bankofbaroda.com