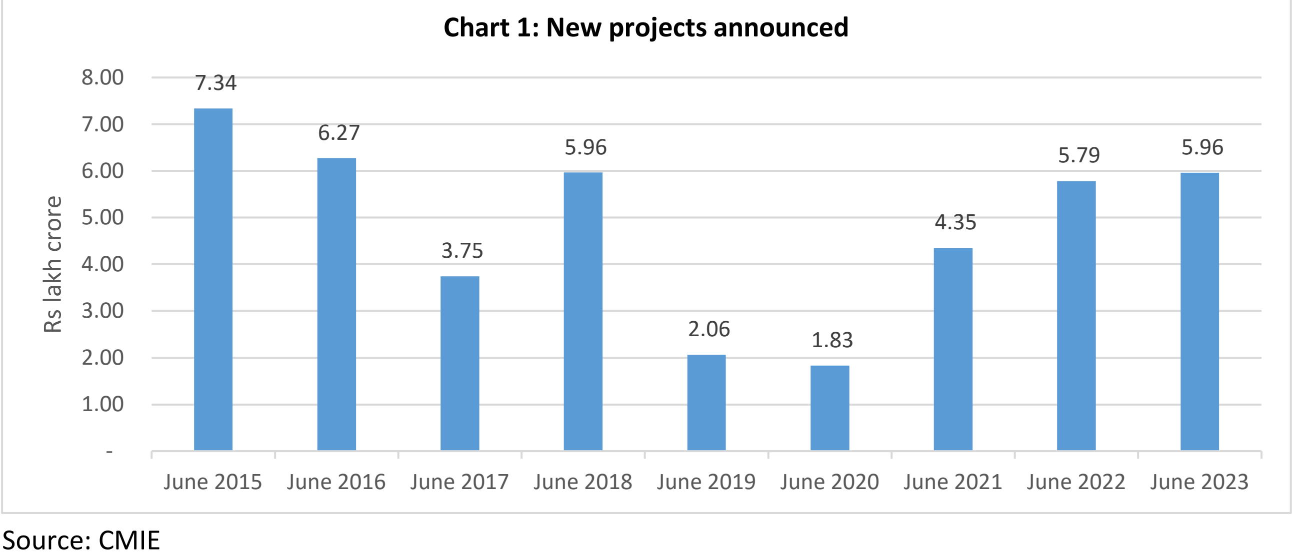
July 4, 2023

Has investment revived in Q1-FY24?

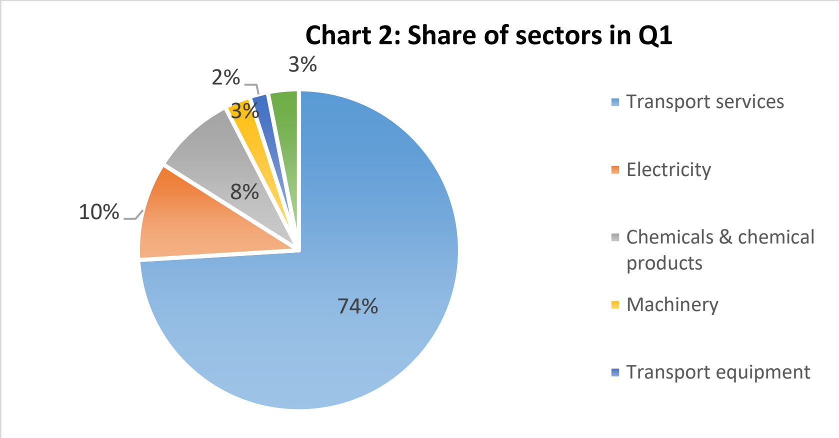
A key to acceleration in pace of growth in the Indian economy is a recovery in private sector investment. There have been affirmative statements made by several companies on investment in FY24 which is positive as it is premised on a recovery in consumption demand. The picture for the first quarter of the year is however, quite expectedly mixed.

Chart 1 shows that there seems to be a U-shaped recovery in terms of new investment project announcements in the first quarter of FY24. This is encouraging as these announcements had declined in 2019 and 2020. The revival witnessed in 2021 continued in 2022 and 2023 though admittedly the level is still lower than what it was in 2016 and 2017.

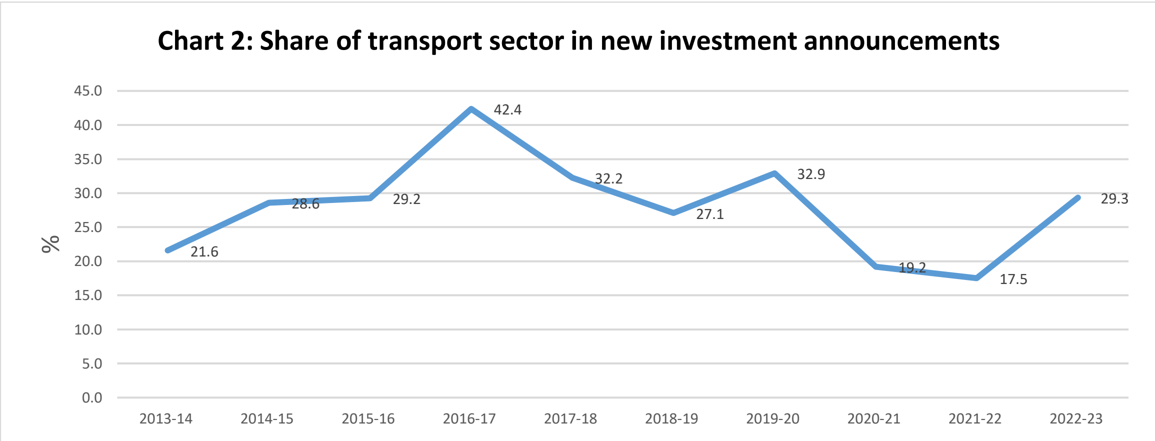


Source: CMIE

A closer look at the new investment announcements for Q1-FY24 of Rs 5.96 lakh crore reveals that there has tended to be high level of concentration in the transport sector which is depicted in Chart 2. Of this, it is the airlines industry which has contributed to these investment announcements. The share of 74% is really high while that for other sectors is low. The share of power sector is 10% and interestingly most of this is in the conventional space. Chemicals is another sector which has a relatively high share of 8% followed by machinery with 3% and the auto sector with 2%. Therefore the announcements are definitely not broad-based and are restricted to a handful of sectors. The other significant part of these announcements is that the airlines industry has dominated the landscape for a considerably long period of time with a share of between 20-30% in the last ten years as shown in Chart 2. Now, investments in this industry are unique in so far as that it involves purchase of airplanes which are imported. Hence while it does add to the capital stock of the country it would not be generating backward linkages with other sectors and hence other related industries may not benefit much from such purchases. The boost is more for the global manufacturers of these aircrafts.



Source: CMIE



Source: CMIE

How does the borrowing side look?

The financing side also provides some clues to the state of investment. In particular the corporate bond market does provide some indications of the industries that may be investing based on their borrowing of long term paper. Table 1 below gives data on the sectors that have raised money in this market.

Table 1: Funds raised in the bond market in Q1 (Rs cr and % share)

	Jun-22	Jun-23	Share 22	Share 23
All industries	97,004	2,32,518	100.0	100.0
Chemicals & chemical products	6,552	1,300	6.8	0.6
Metals & metal products	4,463	200	4.6	0.1
Diversified	3,834	5,369	4.0	2.3
Electricity	3,302	5,525	3.4	2.4
Wholesale & retail trading	5,550	551	5.7	0.2
Air transport & allied services	1,157	1,200	1.2	0.5
Communication services	500	1,336	0.5	0.6
Construction & real estate	5,332	9,565	5.5	4.1
Financial services	63,839	2,06,438	65.8	88.8
Asset financing services	41,702	1,66,930	43.0	71.8

Source: CMIE

As can be seen in the table the total amount of funds raised was impressive at Rs 2.33 lkh crore as against Rs 0.97 lakh crore in the last year. However, almost 89% of the funds mobilized was from the financial sector of which asset financing companies accounted for 72%. Hence there was limited fund raised by non-finance companies. Construction and electricity had shares of 4.1% and 2.4% respectively followed by the diversified group of companies with 2.3%. Therefore, the investment story looks blurred when looked at from the point of view of the debt market. In FY22 NBFCs had retail segment and large industry as major segments with their shares being about 30% each.

Bank credit

Table 2: Growth in bank credit (y-o-y)

	May'22 over May'21	May'23 over May'22
Bank Credit	**12.2**	**15.4**
Food Credit	-41.3	-31.7
Non-food Credit	12.7	15.6
Sector-wise		
Agriculture and Allied	11.7	16.0
Industry	8.8	6.0
Services	12.7	21.4
Tourism, Hotels and Restaurants	8.5	3.6
Shipping	33.2	-18.3
Aviation	-19.0	41.3
Trade	13.2	17.5
NBFCs	17.8	27.6
Other Services	13.4	26.6
Personal Loans	16.3	19.2
Housing	13.6	14.6
Credit Card Outstanding	30.1	29.9
Education	6.1	18.3
Vehicle Loans	14.1	22.2
Loans against gold jewellery	-2.4	22.1
Other Personal Loans	22.8	23.2

Source: RBI

Data on bank credit for the first 2 months suggests that growth in credit was higher than that in FY23. The sectors that have driven this credit growth are agriculture, services and personal loans. Industry has again lagged with growth of 6% as against 8.8% last year. Therefore there are again fewer signs of credit being used by industry for investment purposes and it does appear that most of the loans are for working capital purposes.

Table 3 below gives growth in credit within industry for different sectors. It can be seen that with the exception of petroleum, coal etc. and food processing industries the sectors which witnessed relatively higher growth rates in FY24 had negative growth rates in FY23 (2 months)

	May'22 over May 21	May 23 over May 22
Mining and Quarrying	8.2	17.7
Food Processing	11.5	4.1
Beverage and Tobacco	2.7	29.1
Textiles	5.1	5.3
Leather and Leather Products	4.9	2.2
Wood and Wood Products	8.4	21.3
Paper and Paper Products	5.5	5.2
Petroleum, Coal Nuclear Fuels	23.9	31.0
Chemicals and Products	15.6	4.6
Rubber, Plastic Products	24.3	9.9
Glass and Glassware	-5.7	34.7
Cement and Cement Products	-11.2	12.9
Basic Metal and Metal Product	-2.3	16.5
All Engineering	9.1	5.2
Vehicles, Parts, Equipment	9.0	7.1
Gems and Jewellery	5.3	7.2
Construction	-6.3	8.2
Infrastructure	9.8	1.8
. Power	9.3	0.3
Telecommunications	12.8	-0.8
Roads	17.6	5.2
Airports	-30.0	14.2
Ports	-28.3	-2.7
Other Industries	20.8	-2.0
Industries	8.8	6.0

Source: RBI

Concluding remarks

Putting all the data together that has been presented, it does appear that investment has still to pick up in the economy in a broad-based manner. It appears to be concentrated more in the airlines space on the physical side. In terms of funding for investment, there are no clear signs of sectors witnessing robust growth. The NBFCs have been the main borrowers and are more likely preparing for the demand that will build up during the course of the year. As their credit pattern mimics closely those of banks where retail and large industry have almost similar shares, there could be reason to be optimistic of the future. However, in the short to medium term the heavy lifting has to be done by the government on investment.

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