After a little cheer, investment mood weakened in Sep quarter, shows capex data

Private and public sector companies announced new projects worth a combined ₹1.05 trillion in the September quarter.

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New capex project announcements in the just-ended quarter took a hit, reporting the first sequential decline in three quarters as investors were in a wait-and-watch mode ahead upcoming festival season

India's capital expenditure cycle appears to have failed to revive meaningfully in the just-ended quarter despite strong signs that the economy is scuttling back to pre-pandemic levels. Uncertainty over a possible third wave of the pandemic may have put a dampener on new project announcements, which fell by 59% in the July-September period, show the latest numbers from the project-tracking database of the Centre for Monitoring Indian Economy (CMIE).

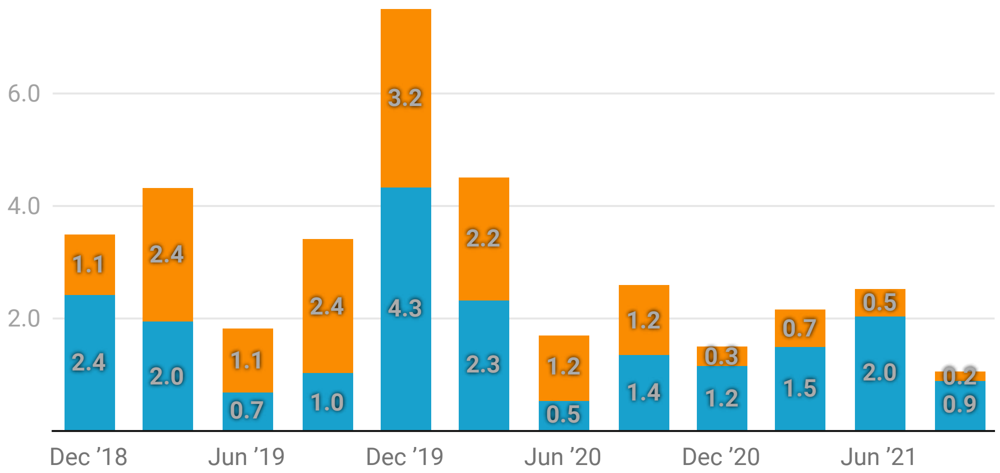
The project announcements had seen sequential jumps of 17% and 45% in the preceding two quarters.

Private and public sector companies announced new projects worth a combined ₹1.05 trillion in the September quarter. The fall was much steeper when compared to the year-ago period, when proposals worth ₹2.58 trillion were announced. Worryingly, this was also significantly below the average quarterly capex announcements worth

quarter

New project announcements (Rs. trillion)

Private Government



Source: CMIE Capex • Get the data • Created with Datawrapper

“The decline in new investment announcements is distressing to say the least as it does show limited confidence in economic prospects," CARE Ratings chief econ Madan Sabnavis said. “Industry is still in a wait-and-watch mode, and while the high-frequency indicators do show that conditions are improving, it is still not satisfying for new investment to be reckoned with."

Putting in a tight leash on their animal spirits, private sector firms announced capex worth ₹88,768 crore, a sequential decline of 57%. Public sector investments continued their lacklustre show as new project announcements fell 66% sequentially and a whopping 87.2% year-on-year, to ₹15,802 crore.

Despite easing restrictions and rising mobility, investment proposals by state governments failed to pick up. They announced projects worth ₹4,024 crore, compared to ₹11,937 crore in April-June. Central government projects were also hit, falling 67% on a sequential basis and 0% year-on-year.

Three projects accounted for two-thirds of the fresh central government projects: a 500-megawatt (MW) ground-mounted solar power project by NHPC in Tamil Nadu, a gas terminal project at the New Mangalore port by the shipping ministry, and a 200-MW ground-mounted solar project by Central Electronics Ltd.

Despite the dismal headline figures, some key macro factors remain conducive for the capex cycle. Low real interest rates and a surplus liquidity in the banking system are positive for investments, along with enough risk appetite for other capital-raising avenues such as equity and bond issuances, said an ICICI Securities report dated 25 August.

Uncertainties continue to plague the sentiment in the manufacturing sector, where project announcements were just 16% of June-quarter levels. However, the June figure was skewed, as Reliance Industries and Adani Enterprises projects alone had a share of 46%.

Investments in services and electricity managed to keep their head above the water as their capex announcements increased during the September quarter: electricity saw a sequential jump of 55%, while services saw a rise of 31%. Construction and real estate projects announced during July-September were down 7.5%. In the mining space, the decline was 80%.

Project stalling rates, calculated as the value of stalled projects as a proportion of total projects under implementation, inched up during the September quarter after remaining stable in previous quarters. Stalling rates for government projects went up 23 basis points to 3.7%, while private sector stalling rates reduced by the same amount to 26.2%, the latest data shows. Despite the drop, stalling rates in the private sector remain uncomfortably high.

Lack of funds continued to remain the biggest reason for projects getting stalled. This factor contributed to the stalling of 15% of such projects, while “other factors" made up 52%. The “other factors" category essentially takes into account unanticipated disruptions and natural calamities, and covid-19 disruptions might have contrib... to this.

Experts remain sanguine about the economic recovery but India's long-awaited capex cycle is likely to emerge and recover meaningfully only after a sustained consumption demand. "With stability being achieved on covid cases and the vaccination getting swifter, conditions should improve, which will lead to higher demand," said Sabnavis of CARE Ratings. "That, in turn, will bring in higher investment in H2FY22 (October-March)."

However, talk of a third wave could keep entrepreneurs guarded in their investment bets.

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