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Capex Growth | Investment push critical for India to achieve higher growth trajectory

While there are some signs of capex revival by the private sector, the revival is skewed with only a few sectors and a few big players contributing to the bulk of investment in the economy

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SEPTEMBER 21, 2022 / 12:15 PM IST

Representative image.

India's economy is wading through various challenges, and recording a gradual recovery from the pandemic. At this crucial juncture, an investment boost is the critical force that could push India to a higher and sustainable growth trajectory.

The government has in the last few years announced various schemes such as Production Linked Incentive (PLI), National Infrastructure Pipeline (NIP), National Monetisation Pipeline, PM Gati Shakti, and corporate tax cuts to spur investment in the economy. While the investment to GDP ratio improved to 32.5 in FY22, it remained below the peak of 34 in FY12 and FY13. Given the strong multiplier effect that an investment push has on the economy, the Finance Minister on September 13 **urged the private sector to spur up their capex plans**.

The Union and state governments along with the corporate sector are critical pillars of investment in the economy. The Centre and state's capital expenditure have a strong multiplier effect of **2.45 and 2 respectively (RBI 2020)**. As per the Niti Aayog, **this multiplier is even larger during phases of economic contractions**. Given the need of the hour, the Union government has pushed up investment efforts. It has recorded capex growth of 63 percent (YoY) in April-July 2022, and has already achieved 28 percent of the strong capital expenditure budgeted for FY23.

However, the states have so far been slow in their capex. **A study of aggregate data for 21 states** shows that their combined capex in the first four months is marginally lower than the corresponding period of the previous year. These 21 states have budgeted for a strong capex growth of 39 percent in FY23. However, capital spending by the states had a slow start in FY23 owing to the concerns of cessation of GST compensation, and lower market borrowings by the states due to delays in the Centre's approval.

In April-June 2022, the aggregate capex by these 21 states was lower by 9 percent compared to previous year. However, in July there has been a pickup in capex by the state governments. Going forward, the state governments' capex is likely to further improve with the disbursement of the Rs 1 lakh-crore interest-free loan by the Centre. The Centre is also front-loading the tax devolution to states, having released two instalments of tax devolution in August.

Coming to the corporate sector, we find that the players have been hesitant in the midst of the domestic and global economic uncertainties. However, there has been recovery in capex from the pandemic lows. Our study of 659 listed non-finance companies shows that capex grew by 22 percent in FY22, though it still remains below the pre-pandemic period. Capex has been mainly in sectors such as telecom, oil & gas, power, retailing, iron & steel, auto and auto ancillaries. The top 10 players have contributed around 50 percent to the total capex for FY22.

nvestment projects announced have recorded an increase in the last two quarters (CMIE). Importantly, the share of private players in investment projects announced is at more than 90 percent in Q1 FY23. While all these projects may not fructify, it is important to note that the intent to invest is improving for the private sector.

Some other indicators that can be taken as a proxy of pick-up in investment, like production of capital goods, and imports of capital goods have also seen an improvement in the last few months. Index of Industrial Production (IIP) for capital goods breached the pre-pandemic level in June 2022, and has recorded a healthy growth in July. Capital goods imports grew by an encouraging 20 percent (YoY) during the April-July period of FY23.

While there are some signs of capex revival by the private sector, the revival is skewed with only a few sectors and a few big players contributing to the bulk of investment in the economy. The small and mid-sized players continue to remain hesitant in the midst of all the global and domestic economic uncertainties.

Given the deleveraging in the last few years, and with improving capacity utilisation levels (manufacturing sector capacity utilisation level breached 75 level), we could see an improvement in capex by the corporate sector. The most critical aspect would be sustenance of the demand recovery that we are witnessing.

The recent fall in global commodity prices and consequent easing of input prices are also supportive of investment upsurge. Interest cost is rising for corporates, but that is unlikely to be a big deterrent for the capex cycle, as interest rates are unlikely to rise sharply from the current levels. However, we need to be cautious of the global slowdown, and tightening of financial conditions globally as that would adversely impact India's economic revival.

(Akanksha Bhende and Shambhavi Priya, Associate Economists at CareEdge contributed to this article).

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