Investments in 2020-21: CARE Ratings

New investments dry up as pandemic rages on

Huge upsurge in demand required to set stage for any revival in near future.

While a lot has been said about the rebounding of the economy in the last two quarters of 2020-21, which has resulted in some optimism, the investment picture remained dark. This was expected given that the government appeared to be the main driver here and private sector contribution was limited. First there was surplus capacity with manufacturing and second there was uncertainty on the funding aspects. There was a moratorium extended by banks for six months which came on the back of the system just about coming closer to normal after the NPA puzzle. Therefore, there was some hesitancy in lending which can be seen from the limited success of the LTRO operations where most of the borrowed money was repaid by banks when the RBI permitted the same.

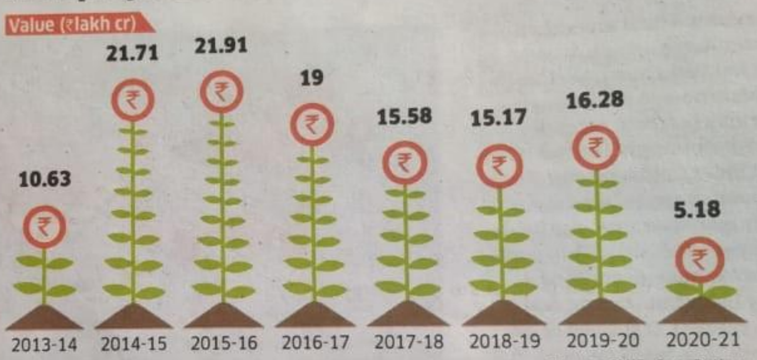
CMIE data on investment flags this problem. Data provided on new investment projects announced, which is a very good indicator of investment intentions, shows that the aggregate amounted to ₹5.18 lakh crore in 2020-21, the lowest since 2004-05 when it was ₹5.63 lakh crore. The downward movement in 2020-21 has been due to exceptional conditions for sure, but for a revival to take place there will need to be an upsurge in demand. Capacity utilisation rate fell sharply in June 2020 to 47.3% and since then recovered to 63.3% and 66.6% respectively in September and December 2020.

Fewer investments announced is also indicative of the fact that the increase in borrowing witnessed last year, which was subdued, was not for investment and could have been more for working capital as well as re-financing purposes. Investment is a concern because the gross fixed capital formation rate has been declining continuously from 34.3% in 2011-12 to 28.8% in 2019-20 and is expected to go down further to 26.7% in 2020-21.

Investment hence has definitely been a casualty of the repeated lockdowns. While it was hoped that there would be a recovery this year, the second wave of the pandemic seems to be have put paid to such hopes.

With several manufacturing businesses not operating fully as only essential goods can be consumed, there is a likelihood of a slowdown in recovery. Sectors like metals, power, IT and chemicals (including) drugs and pharma) will continue to witness momentum. However, for investment to be generalised and not localised, overall consumption has to improve.

New projects announced at multi-year low



Source: CMIE, Care Ratings