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As the country awaits eagerly the Central Statistics Organisation's (CSO) quarterly Gross Domestic Product (GDP) performance due month end, an influential section of India Inc can afford to sit easy what with Sensex companies (index has 30 companies) having piled Rs2.55 lakh crore cash reserves, registering a healthy 23% growth during 2011-12 over last fiscal.

While the economic growth slipped to 5.3% in the fourth quarter of 2011-12, the worst in nine years, experts say it is highly unlikely that the GDP of first quarter of the current fiscal (2012-13) might mark any abrupt improvement. Recently, various government and private entities has downgraded the GDP forecasts for the current financial year (2012-13) to levels which are as low as 5.5%.

Zee Research Group (ZRG) found an interesting trend which revealed that at the end of last fiscal (March 31, 2012), out of remaining 26 companies in Sensex(excluding SBI , ICICI Bank, HDFC Bank , HDFC Ltd.) 18 (around 70%) have witnessed a jump in cash levels when compared to the March 31, 2011 level.

Commenting on this trend displayed by Sensex companies, Keki Mistry, Executive vice-chairman of the board, CEO, HDFC Limited, asserted,"Holding cash depends upon company to company. In our case, we are in the business of lending so we have to maintain the liquidity all the time. However, a manufacturing firm like pharma or take an instance of an IT firm which generally carry large amount of cash as the business itself generates cash."

During the last one year, Bajaj Auto has seen the maximum jump of around 7 times in cash levels followed by Dr Reddy's (3 times), Bharti Airtel (2 times), Tata Power (70%), and Tata Motors (60%).

Explaining the rationale behind the marked rise in cash reserves, Mistry at HDFC, said, "It's a combination of various factors, one would be the process of granting various approvals has slowed down. Other is the higher interest rate which has added woes.

Over the last several months, new capacity has not been created and this trend has already been captured in poor Index of Industrial production (IIP) numbers. Hence, if fresh investments are not being made, it would certainly lead to swelling of cash reserves."

Mistry's thought got an endorsement from AK Prabhakar, senior vice-president, equity research, Anand Rathi Financial Services, who averred, "Slowing growth of the Indian economy has led to a dull investment scenario. Higher interest rate is also dissuading India Inc to go for fresh investments. Various regulatory approvals which are pending for clearances have also hindered the capacity expansion plans and have led to lack of ordering activity.

Furthermore, mergers and acquisitions deals have also lowered in India and on global front due to uncertain economic scenario, no expansion plans are taking off on green field and brown field projects. Nowadays, working capital cycle has elongated and lack of response on policy front from government side is forcing companies to sit comfortably on cash."

Another school of thought which explained the dull investment environment came from DR Dogra, managing director and chief executive officer, CARE Ratings, who affirmed, "India Inc has to take a call on investment based on two sets of factors. The first is cost of capital and the second is demand. On both these scores, companies have not met with a favourable environment. Today demand is down as consumption is diverted to spending more on essentials on account of high inflation. Further, the government's spending programme has been constrained by the fiscal pressures. To top it all, interest rates are high which affects the viability of projects as under these competitive conditions, margins are under pressure. This by itself has slowed down growth."

Commenting on the future trend of cash reserves, Prabhakar at Anand Rathi, predicted**,** "First half of the current fiscal (2012-13) is almost done and till now investment cycle has not shown any improvement. However, before coming to any conclusion one needs to watch out the policy actions which are expected to be taken by the government. If this happens, the investment cycle will pick up but not sooner than the third quarter which further hints that these companies would be comfortable in holding their cash reserves."

However, Dogra at CARE argued, "One cannot be too sure of this phenomenon being replicated this year as we have seen growth in profits moving into the negative territory. Therefore, while overall there would still be positive profits which can theoretically be ploughed back, the rate of growth will be lower. Hence, while cash reserves may increase but the pace of growth would be slower than before. Also there could be a case of some deployment of own funds for maintenance investment."

Commenting on the alternative deployment of this idle cash reserves of Rs2.55 lakh crore, Prabhakar at Anand Rathi , hypothetically opined, "It can be used on the infra front which is much talked about like the making of highways. That can also be utilised in adding power generation capacities, laying down gas pipelines, expansion of fertiliser capacities etc. "

For efficient deployment of the existing cash pile, Mistry at HDFC, suggested, "Process of granting various approvals should be expedited. A single window clearance system is desired where the projects get approval quickly at one place without having to go through the hassles of 8 to 10 authorities which can really help in the long term. Along with this, little lowering of interest rate should be done and more importantly, better Infrastructure needs to be created. Problems related to power sector and various issues like coal allocation, land etc. need to be resolved."