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Business houses commit over \$100 b investment amidst optimism

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With improvement in business sentiment following change of guard at the Centre, major Indian corporate houses, led by Tatas and Reliance, have committed to invest nearly \$100 billion (Rs.6 lakh crore) in three years expressing their faith in the economy. A portion of this investment will go for their overseas operations as they have harboured global ambitions.

The Tata group has announced plans to invest \$35 billion (Rs.2.10 lakh crore). While Reliance Industries has committed to invest \$30 billion (Rs.1.80 lakh crore) in three years, JSW Steel has plans to invest \$22 billion (Rs.1.32 lakh crore) in ten years.

This year, public sector undertakings (PSUs) would invest \$41 billion (Rs.2.48 lakh crore) as announced in the budget 2014-15 to spur growth and create employment. This is in marked contrast to the past few years when companies, both big and small, remained shy to invest in a regime plagued by policy paralysis. Now they are openly announcing growth plans with renewed optimism.

“The economic environment does appear to be turning around, which is prompting investment to increase. For two years, we have had virtual stagnation and now there are signs of a turnaround. The presence of a strong new government has reinforced the sentiment. Clearly, there are expectations of a continuation of reforms which will add to the investment cycle,” said CARE Ratings Deputy Managing Director Rajesh Mokashi.

“Higher investment is good for the economy at a time when the gross fixed capital formation rate is coming down. With interest rates being where they are, this is a positive sign as it indicates that industry is taking a medium term view and not just a short term stance,” he added.

The capex infusion plans by big companies have prompted small and medium enterprises (SMEs), e-commerce firms and start-ups to open their wallets to benefit from the growth momentum.

“The capital investment plans by the biggies will have a cascading effect in the coming days. One of the key after-effects will be that it will trigger the SMEs also to join the spree and stay in competition. We also plan to invest heavily in our operational and delivery capabilities so that we can cater to upcoming boom in the logistics sector,” said Patel Integrated Logistics Executive Vice Chairman Areef Patel. “The massive capex plans announced by large companies show that the animal spirit has returned to India Inc finally. When diversified companies such as the Tatas begin to pump money, the ripple effect can be very massive in terms employment generation and other related businesses,” said Mahesh Singhi, Managing Director, Singhi Advisors, a boutique investment bank.

Foreign investment is like to pour in. Companies like Amazon and GE have already committed billions of dollars. “The perception on India has changed. The Prime Minister has brought new optimism. He has done a terrific job and money will pour in. I will make significant investment here,” said American real estate tycoon Donald J Trump.

According to experts, India do need to get out of the low investment cycle. A pickup in investment can help the economy get past the 5 per cent mark and even higher depending on how conditions pan out.

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