

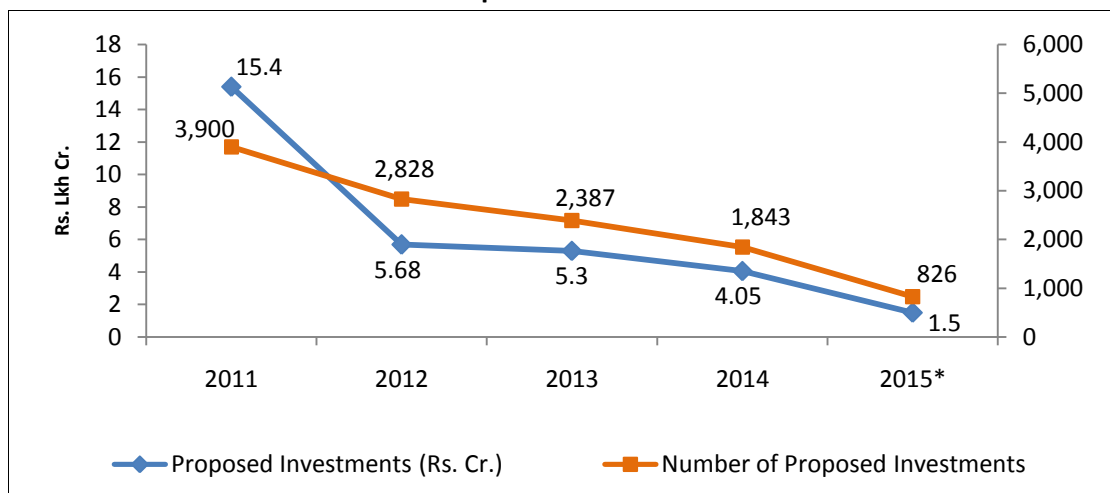
## Investment Climate in India(2011-2015)

The key macro variables have indicated an improvement in the overall economic health of India with GDP growth strengthening from 6.9% in FY14 to 7.4% in FY15, industrial production settling higher at a cumulative growth of 2.8% in FY15 relative to -0.1% in FY14 and inflation receding to an annual average of 5.96% in FY15 vis-à-vis 10% in FY14. However, notwithstanding the better economy statistics, there have been continued reports of a slowdown in investments and an increase in stalled projects across industries. Further, a lack luster corporate performance in FY15 warrant a fresh look at the trends in investments in India.

Thus, this report aims to analyze the investment climate in India. A period of five years is selected for this study to better understand the trends. This study covers the investment intentions/proposals over the last five years (2011 to May 2015) and further reviews the investments which were implemented over the period as well. This analysis is carried out at the aggregate level, state level and across industries in order to develop a clear position of the domestic investment climate. Note, the data for this study is collected from the statistical releases of the Department of Industrial Policy and Promotions, Gol.

**Over the five years, a total of Rs. 31.93 Lkh Cr. has been proposed to be invested across 11,784 investment projects in the country.** Exhibit 1 below captures the trend in number of proposed investments and the amount of proposed investments from 2011 to 2015 (upto May 2015)

**Exhibit 1: Proposed Investments in India**



Source: DIPP

\*As of May 2015

**The two main takeaways are:**

- 1. There has been a continuous slowdown in the proposed amount and number of investments over the last five years with the former declining from Rs. 15.4 lakh Cr. in 2011 to Rs. 4.05 lakh Cr. in 2014 and further to Rs. 1.5 lakh Cr. for the five months of 2015 (Rs. 1.23 lakh Cr. in the first five months of 2014).**
- 2. Number of investment proposals has come down to 1,843 in 2014 as against 4,336 in 2011. During the first five months of 2015 it was 826 compared with 868 during the corresponding period in 2014.**

Thus preliminary data suggests that the investment climate at the national level has deteriorated quite consistently over the last half decade.

#### **A. State Level Investment Climate**

This section studies the investment climate across the states of the country in order to better understand where investments have been moving during the last five years. Gujarat and Maharashtra emerge as the two favourites among all states as regards total amount proposed for investments into the states over the period under consideration.

Exhibit 2 below depicts the percentage share of select states in the total proposed investment amount.

Overall, investment proposals have been concentrated to the top 5-6 states which account for close to 70% of the total investment proposals made in the country. As of 2011, these proposals were concentrated to the top 6 states of,

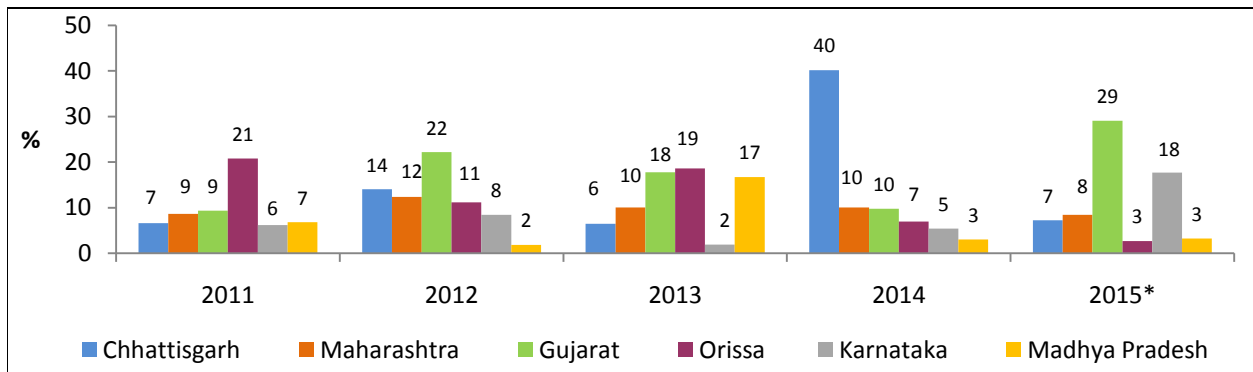
- Orissa (21% share of total),
- West Bengal (20%),
- Gujarat (9%),
- Maharashtra (9%),
- Chhattisgarh (7%) and
- Madhya Pradesh (7%) which together accounted for 72% of the total investments proposals in the country.

Stronger growth prospects of states like Madhya Pradesh (GSDP growth of 8.5% in FY11), Orissa (GSDP growth of 8% in FY11) and Chhattisgarh (GSDP growth of 10.6% in FY11) would have contributed towards the positive investment outlook of these states in 2011.

However, over the last five years, investment proposals have shifted and while Gujarat, Maharashtra and West Bengal still feature among the top 5 states, states such as Chhattisgarh and Madhya Pradesh have made way for Karnataka and Tamil Nadu respectively in 2015. This in turn suggests that relatively superior infrastructure level with adequate power, water, supply, easy access to finance, better literacy rate, higher industrialization, better connectivity etc have caused a shift in preference to these states notwithstanding the continuous improvement in the economic growth in Chhattisgarh and Madhya Pradesh. The five states of Maharashtra, Gujarat, West Bengal, Karnataka and Tamil Nadu collectively, account for 74% of the total investment intentions in India as of

the first five months of 2015. Further, these five states have the highest amount of outstanding bank credit which comprises 62.2% of the total outstanding credit in India as of FY14<sup>1</sup>.

**Exhibit 2: State-Wise Proposed Investments (% Share in total)**



Source: DIPP

\*As of May 2015

- Gujarat and Maharashtra remain the most favoured states in India with a consistent high share in the total proposed investments in the country. The share of both the states has remained in the range of 8-12% over the last five years. Outstanding bank credit is the highest in Maharashtra over the five years although it has been growing at a diminishing rate. Gujarat stands fifth as regards outstanding bank credit in the country with a broadly steady growth years over the years.
- Investment proposals into Chhattisgarh saw a major spike as the state’s share increased to 40% of the total in 2014. In 2015 so far, its share stands at 7% of the total investments proposed in the country.
- In Madhya Pradesh, investment proposals were on an uptick till 2013 where the state received 17% of the proposed investments in the country. However, in 2014 its share fell sharply to 3% and is at the same level in 2015, thus far. This was corroborated in the outstanding credit of the state which followed a similar trend as it fell from a growth rate of 23% in FY12 to 17% in FY14.
- Orissa’s share in the total investment proposals was relatively high up till 2013 at 19%. However, the state has seen a lowering in its share in 2014 as it fell to 7% and it stands further lower in 2015 at 3%. This has also been the broad trend in the outstanding credit which recorded a growth of 20% in FY11 but slowed down to 10.9% in FY14.
- Karnataka also witnessed a fluctuating share in proposed investments over the years reaching a low of 2% in 2013. However, the state has gained in prominence and its share is currently at 18% in 2015.
- West Bengal has seen a fluctuating trend over the period starting from a high share of 20% in 2011 which fell to 1% in 2014. However, there has been a pickup in 2015 where the state’s share stood at 10% of the total investment proposals in the country. Tamil Nadu on the other hand has recorded an improvement from its share of 2% in 2011 to 8% in 2015.

<sup>1</sup> As per RBI data on State-Wise Outstanding Credit Of Scheduled Commercial Banks

## B. Industry Level Investment Climate

This section reviews the investment proposals across the various industries. Table 3 below shows the percentage share of select sectors in the number of investment proposals made across industries from 2011 to 2015 (as of May 2015).

Table 1 details the sector wise percentage share of the various industries in the amount of proposed investments.

**Table 1: Sector-Wise Proposed Investments (% Share)**

Sector	2011	2012	2013	2014	2015*
Metallurgical Industries	17.5	25.0	20.2	6.7	7.5
Fuels	0.6	0.3	3.4	0.5	5.2
Electrical Equipment	50.6	25.4	15.6	8.6	20.3
Fertilizers	0.6	1.8	4.2	20.2	1.1
Chemicals(Except Fertilizers)	2.5	13.1	10.9	13.1	2.5
Textiles	1.7	2.6	15.4	4.1	4.7
Cement and Gypsum	4.8	6.7	6.1	4.9	3.7
Transportation	0.6	4.3	1.4	1.5	1.1
Industrial Machinery	0.3	0.4	1.1	0.9	0.4
Misc.Mechanical & EngineeringInd.	1.0	1.4	0.8	1.0	2.5
Comm /Office/hold equipment	0.0	0.0	0.0	0.2	1.0
Drugs and Pharmaceuticals	0.4	1.5	1.3	1.0	2.2
Sugar	1.1	1.0	0.5	0.9	1.0
Fermentation Industries	0.4	0.8	0.9	0.6	1.1
Food Processing Industry	0.7	1.2	1.9	2.5	2.6
Rubber Goods	0.5	0.4	1.4	1.2	1.8
Misc.Industry	0.2	0.1	0.1	0.3	1.6
Others	17.9	14.0	14.9	31.9	39.6

Source: DIPP \*As of May 2015

- The dominating share of the ‘electrical equipment’ industry in 2011 at 50.6% of total proposed investments in 2011 has over the last four years fallen significantly to 8.6% in 2014 before improving to 20.3% in 2015. This is the single most noteworthy movement among industries. Similarly, the share of ‘metallurgical industries’ in the total proposed investments also moderated sharply from 17.5% in 2011 to 7.5% in 2015. The depletion in proposed investments in these two sectors has been largely distributed over the increase in the share of various other sectors of industry.
- The ‘Fuel’ sector saw a significant pickup in proposed investments in 2015 to 5.2% from 0.6% in 2011. This could be on account of the phasing out of the fuel subsidy by the Government which has induced investors to enter the industry.
- There was a notable increase in the share of certain sectors such as ‘textiles’ (1.75 to 4.7%), ‘Misc. Mechanical and Engineering industry’ (1% to 2.5%), ‘drugs and pharmaceuticals’ (0.4% to 2.2%),

‘fermentation industries’ (0.4% to 1.1%), ‘food processing industry’ (0.7% to 2.6%), ‘rubber goods’ (0.5% to 1.8%) and miscellaneous industries (0.2% to 1.6%)

- The share of ‘Chemicals’ increased significantly to 13.1% in 2012 and 2014 however, it has returned to 2.5% as of May 2015. ‘Industrial Machinery’ and ‘Sugar’ industries remained largely flat at around at 0.3%-0.4% and 1-1-0.9% respectively over the period.

### C. Investments Implemented

The final section of this report examines the investments which have been implemented over the last five years. The same is looked at, at across states and industries.

- **State-Wise**

There emerges to be a significant disconnection between the investment intentions and the actual implemented investments. Table 2 captures the total investments implemented (in number and amount) at the State- level for select states.

**Table 2: State-Wise Total Investments Implemented (2011- May 2015)**

	Number	Rs. Cr.
<b>Andhra Pradesh</b>	211	18,776
<b>Chhattisgarh</b>	4	931
<b>Gujarat</b>	388	110,582
<b>Karnataka</b>	102	12,608
<b>Madhya Pradesh</b>	53	6,849
<b>Maharashtra</b>	389	51,642
<b>Orissa</b>	13	8,514
<b>Rajasthan</b>	85	10,251
<b>Tamil Nadu</b>	59	5,592
<b>Uttar Pradesh</b>	83	7,200
<b>West Bengal</b>	142	7,736
<b>Total (All States)</b>	<b>2,057</b>	<b>270,864</b>

Source: DIPP

- As of May 2015, the two states of Gujarat and Maharashtra collectively account for 30% of the total investments implemented in the country. While maximum numbers of projects have been implemented in Maharashtra (389) with Gujarat being second at 388, in terms of value Gujarat stands strongly ahead of the other states of the country with investments to the tune of Rs. 1.10 lakh Cr, being implemented in the state from 2011 to May 2015. Maharashtra stands second in terms of amount of investments which was less than half of the investments implemented in Gujarat at Rs. 51,642 Cr. over the period. Note, the amount of investments proposed in Gujarat and Maharashtra was Rs. 4.48 lakh Cr. and Rs. 3.11 lakh Cr. respectively.

- Andhra Pradesh stands third with a total of 211 projects being implemented worth Rs. 18,776 Cr. over the last five years which is drastically lower than the proposed investments of Rs. 1.94 lakh Cr. over the period.
  - Karnataka witnessed the fourth highest investments being implemented at Rs. 12,608 Cr. However this was over fewer number of projects (102) compared with the 142 projects in West Bengal with investments upto Rs. 7,736.
  - Orissa saw a total of 13 high investment projects as the amount invested stood at Rs. 8,514 Cr. over the five years.
  - West Bengal, Uttar Pradesh and Madhya Pradesh witnessed Rs. 7,736 Cr., Rs. 7,200 Cr. and Rs. 6,849 Cr. being implemented respectively.
  - Although proposed investments in Chhattisgarh stood very high at (Rs. 3.89 lakh Cr.), actual investments implemented were only Rs. 931 Cr. over a total of 4 projects over the five year duration.
- **Industry-Wise**

The actual investments over all industries implemented from 2011 to 2015 at Rs. 2.71 lakh Cr. is a mere fraction of Rs. 31.93 lakh Cr. proposed the period. This could largely be on account of the overall sluggishness in the economy prevalent at the time, slow project clearances and an increasing number of stalled projects.

Table 7 depicts the industry wise investments implemented from 2011 to May 2015.

**Table 7: Industry -Wise Total Investments Implemented (2011-May 2015)**

Sector	Number	Rs. Cr.
Metallurgical Industries	220	52,887
Fuels	10	265
Electrical Equipment	105	23,927
Fertilizers	20	4,163
Chemicals(Except Fertilizers)	188	18,939
Textiles	224	14,120
Cement and Gypsum	86	23,697
Transportation	44	6,458
Industrial Machinery	46	2,242
Misc. Mechanical & Engineering Ind.	161	13,528
Commercial /Office/hold equipment	1	484
Drugs and Pharmaceuticals	78	4,995
Sugar	89	11,374
Fermentation Industries	26	1,992
Food Processing Industry	137	8,003
Rubber Goods	21	6,096
Misc. Industry	25	542
Others	251	22,190

Source: DIPP

- Similar to the finding under the ‘proposed investment’ analysis, ‘Metallurgical Industries’ recorded the highest investments of Rs. 52,887 Cr. over 220 projects being implemented from 2011 to May 2015 standing dramatically ahead of the various other industries.
- ‘Electrical equipment’ and ‘Cement and Gypsum’ witnessed sizeable investments implementations at Rs. 23,927 Cr. and Rs. 29,697 Cr. over the last five years. The latter saw some high investment projects as the total number of projects implemented in the sector was only 86 vis-à-vis 105 in the ‘electrical equipment’ sector.
- There were noteworthy investment implementations in the ‘Chemicals’ industry at Rs. 18,939 Cr. , ‘Textile’ industry at Rs. 14,120 Cr, ‘Miscellaneous Mechanical and Engineering industry’ at Rs. 13,528 Cr. and the ‘Sugar’ industry at Rs. 11,374 Cr. However, maximum number of projects was implemented in the ‘Textile’ industry at 224.
- The sectors such as ‘Commercial/ office/ holding equipment’ and ‘fuels’ saw lower investments being implemented at Rs. 484 Cr. and Rs. 265 Cr. respectively.

#### **D. Concluding Remarks**

- Overall, the investment climate in the economy has been deteriorating over the last half decade. Persistent high interest rates, slow clearances of projects and a weak economic backdrop can be viewed to be the limiting factors to investment growth in the five years gone by.
- While investment intentions and sentiments for states like Madhya Pradesh, Chhattisgarh and Uttar Pradesh are improving, actual investments implemented in these states leaves more to be desired. It is the big states of Gujarat, Maharashtra, Andhra Pradesh and West Bengal which continue to attract maximum investments.
- Investment proposals made across industries paint a promising picture. However, the investments implemented over the period were considerably lower in comparison and concentrated to the major industries such as ‘Metallurgical industry’, ‘electrical equipment’, ‘textile’ and ‘chemicals’.
- The investment climate in the country is expected to improve going ahead supported by pro-active government measures and relatively lower interest rates from year-ago levels. Further, as the economy picks up on the projected course, increasing domestic demand will support industrial growth and subsequently attract investments.

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