India's Capex Story Gives a Mixed Picture

November 13, 2024 | Economics

Investment is the cornerstone of economic growth. Channelling spending towards new investments, project expansions and other capital expenditures fosters higher economic activity. It also augments economic capacities promoting opportunities for employment and supporting demand. Sustained focus on investment has strong multiplier effects as it puts the economy on a high growth trajectory.

With consumption showing a subdued performance, investment has become even more critical for supporting India's growth trajectory. India's gross fixed capital formation (GFCF) increased to 30.8% of GDP in FY24, compared to an average of 28.9% between FY15-19 (pre-pandemic period). The government's strong capex push, as well as household investment in real estate (dwellings, other buildings and services) has supported the improvement in GFCF. However, the scenario on the private capex front remains muted with a durable recovery yet to be seen.

The report presents an evaluation of the investment scenario in the Indian economy. The following sections provide an analysis of public and private capex and sources of financing. On the corporate capex front, the aggregate capex of a sample set of companies (1,074 non-financial listed companies) was seen at Rs 9.4 trillion in FY24, marginally lower than the previous year. The central government and aggregate state government capex (20 major states) contracted by 15.4% and 10.5% (YoY), respectively, in the first half of FY25. Aggregate capex by major CPSEs contracted by 10.8% (YoY) in H1, amounting to Rs 3.4 trillion, which is approximately 43.6% of the annual target. Furthermore, investment announcements and completions both by the public and private sector also point towards a sluggish half-yearly performance according to CMIE data. Election-related restrictions in Q1 FY25 weighed upon the public capex in the first half of the current fiscal. Additionally, subdued domestic demand, geopolitical tensions, oversupply from China and higher borrowing costs have also posed as headwinds for the upturn in investment scenario.

To analyse the future capex growth of the economy, the report has analysed the order books of the infrastructure and capital goods sectors. The infrastructure sector, being the backbone of the economy, and the capital goods sector, which produces essential tools and machineries for goods and services production are key leading indicators of future capital expenditure by both public and private sector. The increasing order book trend of the capital goods sector and recovering trend of the infrastructure sector suggest optimism about further capital spending by businesses in other sectors as well, creating a positive feedback loop.

Public & CPSE Capex Remains Subdued in H1 FY25

In the past few years, public capital expenditure has shown strong growth, primarily driven by the central government's capital expenditure. According to budget estimates, the central allocation for capex has more than doubled, increasing from 1.6% of GDP in FY19 to a budgeted 3.4% of GDP in FY25 (Figure 1). Additionally, state capex is budgeted to experience a modest increase to 2.6% of GDP in FY25, surpassing the pre-pandemic level of 2.2% of GDP in FY19 (Figure 2). It is of utmost importance to closely monitor the actual capital expenditure by states, as historically, states have often faced challenges in fully deploying their budgeted capex allocations. The top 20 major states experienced an aggregate shortfall of approximately 18% compared to their budgeted capex amounts in FY24 (Table 1). Apart from Telangana, Bihar, Madhya Pradesh and Himachal Pradesh, all major states have missed their budgeted capex target in FY24. This underscores the importance of monitoring state capex to identify and address potential deployment challenges.

In the first quarter of FY25, public capital expenditure slowed due to the restrictions imposed during the general elections. The Central capex contracted by 35% YoY in Q1 to Rs 1.8 trillion, while the state capex decreased by 21% YoY to Rs 0.8 trillion (Figure 2). A marginal recovery in the public capex expenditure was witnessed in Q2, led by central capex, which grew by 10.3% YoY in the second quarter. However, state capex continued to remain in contractionary zone, falling by 3.8% YoY in Q2. Some states like Punjab, Assam, Karnataka, Maharashtra, and Rajasthan, witnessed double digit-growth in capex in H1 (Table 1). Central and aggregate state capex contracted by 15.4% and 10.5% (YoY), respectively, in H1. With this, the centre has achieved 37% of its budgeted capex target in H1, while 20 major states, at an aggregate level, have achieved only 28% of their budgeted target. It is crucial to monitor the trajectory of the public capex going forward. Any further slowdown in subsequent quarters could result in a shortfall relative to budget estimates. Hence, the possibility of a downward revision in the capex target remains.

Figure 1: High Public Capex Budgeted in FY25

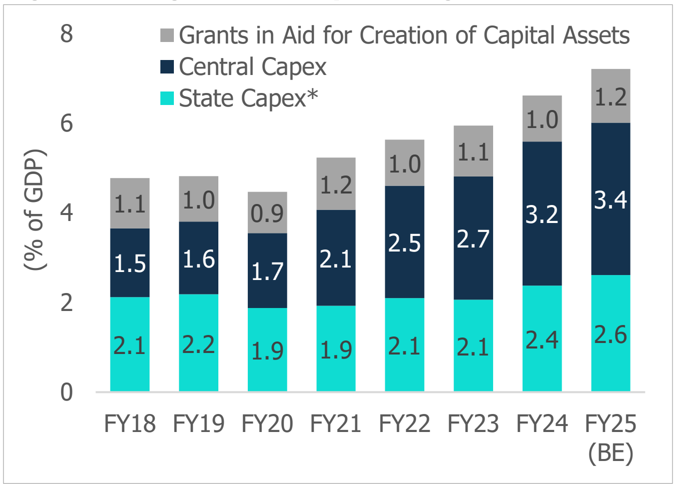
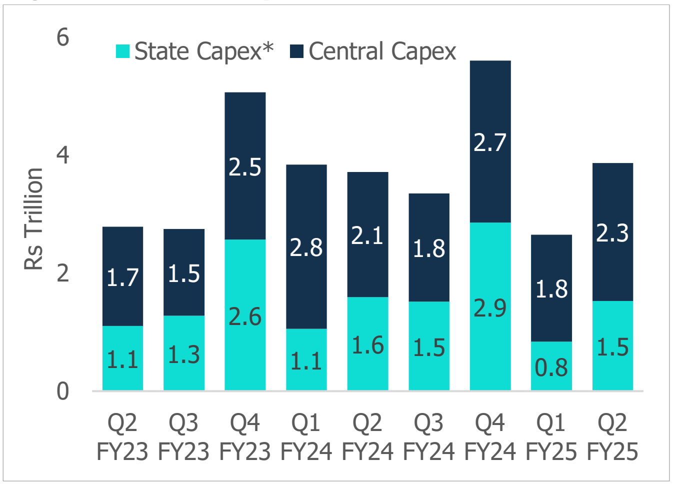


Figure 2: Public Capex Weak in H1 FY25



Source: CMIE, CareEdge. *Based on 20 states accounting for ~93% of India's GDP. It excludes: Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Goa.
**Capex growth of few states for Q2 has been extrapolated based on trend due to missing data.

Table 1: Overview of the State Finances

	(Rs Billion)					(%)	
	FY24 BE	FY24 (A)	FY25 BE	H1 FY24	H1 FY25	FY24 (A) vs FY24 (BE)	H1 FY25 Growth (YoY)
Andhra Pradesh	311	236	342	166	46	-24%	-72%
Assam	258	207	232	56	79	-20%	41%
Bihar	304	351	306	138	133	16%	-4%
Chhattisgarh	306	162	335	63	62	-47%	-1%
Gujarat	701	565	757	208	199	-19%	-4%
Haryana	230	150	163	60	37	-35%	-38%
Himachal Pradesh	52	56	63	19	19	8%	2%
Jharkhand	216	206	240	51	49	-5%	-4%
Kerala	146	131	157	60	61	-10%	2%

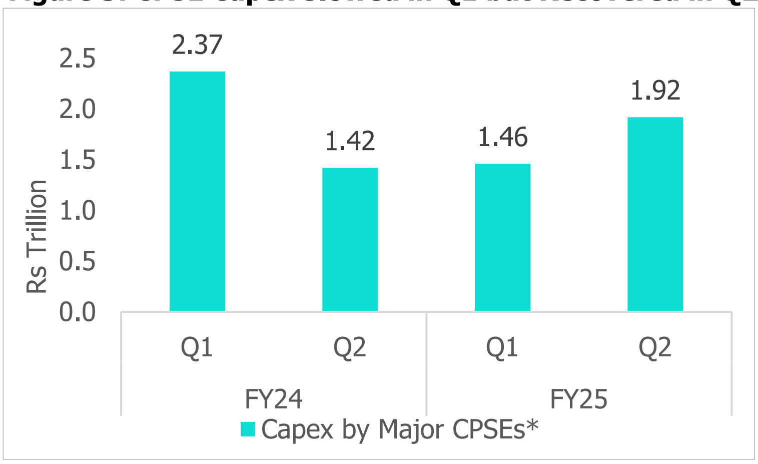
Madhya Pradesh	541	601	616	287	275	11%	-4%
Maharashtra	962	724	845	167	199	-25%	19%
Odisha	517	439	632	146	143	-15%	-2%
Punjab	104	49	74	15	28	-53%	87%
Rajasthan	399	308	434	139	162	-23%	17%
Tamil Nadu	456	395	477	178	163	-13%	-8%
Telangana	375	443	335	228	99	18%	-57%
Uttar Pradesh	1563	1091	1547	423	354	-30%	-16%
Uttarakhand	164	110	138	49	32	-33%	-35%
West Bengal	340	285	359	101	109	-16%	8%
Karnataka	583	519	529	98	124	-11%	26%
20 Major States*	**8528**	**7026**	**8579**	**2649**	**2371**	**-18%**	**-10.5%**

Source: State Budgets and Care Ratings. Based on 20 states accounts for ~93% of India's GDP. It excludes: Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Goa. Capex growth of few states for Q2 has been extrapolated based on past trend due to missing data of recent month. Capex growth of FY25 BE for Andhra Pradesh has been assumed at 10% based on historical trend as budget is yet to be presented.

To bolster capital expenditure by states, the centre has raised the allocation for the 50-year interest-free loans in the Union budget for FY25 to Rs 1.5 trillion, compared to Rs 1.3 trillion announced in the interim budget. Of this, Rs 550 billion is an unconditional loan, while the remaining Rs 950 billion is tied to various conditions such as industrial growth, land reforms, and capex growth by states. However, it is important to monitor the utilisation of this loan by state governments in FY25. In the previous fiscal year, state governments had only utilised Rs 1.1 trillion of the budgeted interest-free loans of Rs 1.3 trillion.

In the first quarter of FY25, capital expenditures by major Central Public Sector Enterprises (CPSEs) (with capex targets of Rs 1 billion and above) declined by 38.4% YoY, totalling Rs 1.46 trillion (Figure 3). However, there was a recovery in Q2, with capex of Rs 1.92 trillion. Overall, capex by major CPSEs contracted by 10.8% in the first half of FY25, amounting to Rs 3.4 trillion, which is approximately 43.6% of the annual target. There is a need for CPSE capex to pick up in H2 FY25 to meet the full year target. The government has set an aggregate CPSE capex target of Rs 7.7 trillion for FY25, reflecting a 4.9% increase compared to the previous year's target of Rs 7.4 trillion.

Figure 3: CPSE Capex Slowed in Q1 but Recovered in Q2

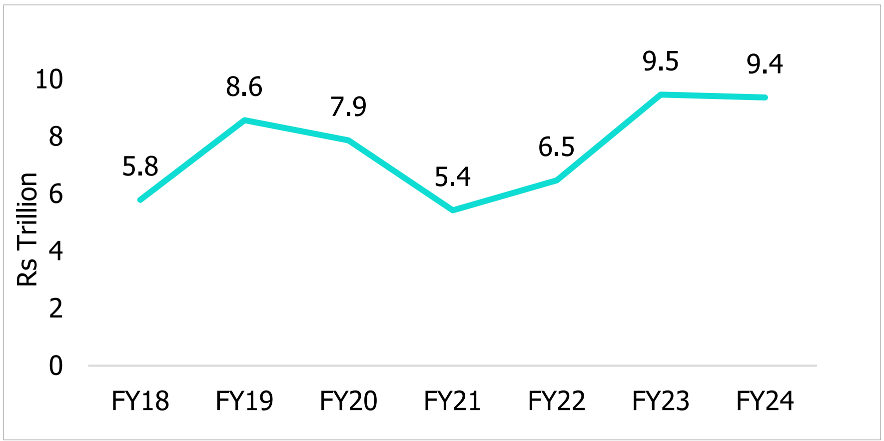


Source: Ministry of Finance and CareEdge. *Select CPSEs and other government organization having capex target Rs 1 billion & above

India Inc's Capex Marginally Lower in FY24

To assess the directional trends in capex within India's corporate sector, a detailed analysis was conducted on the annual financial statements of 1,074 listed non-financial companies. The data reveals that the aggregate private capex for our sample set stood at Rs 9.4 trillion in FY24, marginally lower than Rs 9.5 trillion for FY23. However, this is higher than the last five-year annual capex average of Rs 7.7 trillion for our sample set.

Figure 4: Private Capex



Source: Ace Equity, CareEdge based on the analysis of 1,074 non-financial companies
Note: Formula used for capex calculation is (Gross Block + CWIP) of current year – (Gross Block + CWIP) of previous year. In this total capex calculation, there would be some instances where Gross Block would have gone up because of Capex by these players outside India, but such cases in overall calculation will not be significant. This calculation could also have some instances where Gross Block has gone up simply because of an acquisition, but again this number will not be significant in the aggregate capex calculation

The top 5 sectors in which private capex remain concentrated are Oil and petrochemicals (21% share in total), Power (12.8%), Telecom (12.8%), Automobile and ancillaries (7.4%), and Iron and steel (7.1%) in FY24.

Private capex has witnessed strong growth in sectors such as Oil and petrochemicals (19.2%), Telecom (19%), Power (9.7%) and Chemicals (19.4% YoY growth). However, there has been a decline in private capex in sectors such as Iron and Steel (-4.4%), Non-ferrous Metals (-15.4%), Healthcare (-50.1%), and Retail (-55.3%) in FY24.

Table 2: Performance of Corporate Capex in Major Sectors in FY24

Sector	Capex (Rs Mn)	Growth (%, YoY)	Share in Total Capex (%)
Oil and petrochemicals	1,952,353	19.2	20.9
Power	1,198,087	9.7	12.8
Telecom	1,197,361	19.0	12.8
Automobile & Ancillaries	6,90,910	1.5	7.4
Iron & Steel	6,62,928	-4.4	7.1
Non-ferrous Metals	3,36,978	-15.4	3.6
Chemicals	3,25,758	19.4	3.5
Healthcare	2,93,138	-50.1	3.1
Retail	2,79,292	-55.3	3.0

Source: Ace Equity, CareEdge based on the analysis of 1,074 non-financial companies

Some of the major players incurring capex in top 5 sectors are Reliance industries, Oil and natural gas corporation, Bharti airtel, NTPC, Tata motors, Vodafone idea, Indian oil corporation, Power grid corporation, Tata steel, JSW steel and Steel authority of India.

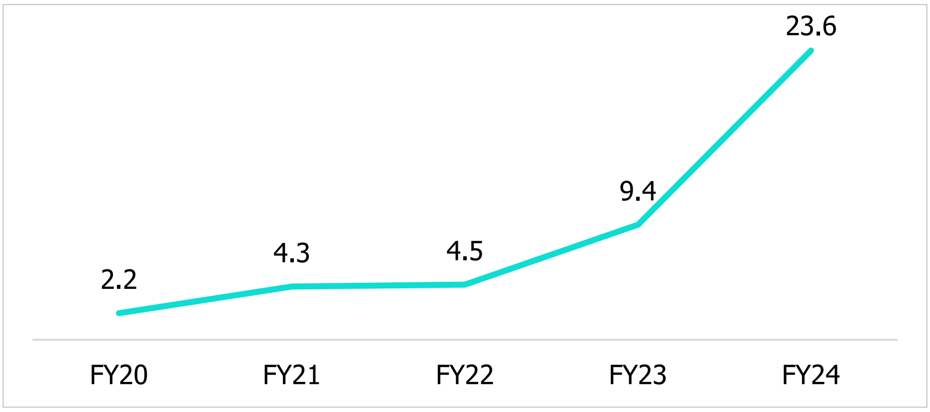
Order Books of Infrastructure and Capital Goods Sectors shows improvement

Infrastructure and capital goods sectors are crucial for the overall growth of the economy. Investments in both infrastructure and capital goods sectors create a multiplier effect in the economy, stimulating growth not just within the sector itself, but also creating ripple effects throughout the economy.

Order books of the infrastructure and capital goods sectors are key indicators of future capital expenditure by both the public and private sector.

Looking at the order books of a representative sample of companies in the capital goods sector, it has been found that order books have registered a sharp increase of 23.6% in FY24 as against CAGR of 4.5% in the preceding four years. Moreover, just in first half of the FY25, there has been a growth of 10.3% compared to end FY24. This implies that order book momentum has remained healthy in FY25.

Figure 5: Order Book of Capital Goods Companies (YoY growth)



Source: Annual Reports of representative sample of companies and their information available with stock exchanges, CareEdge estimates

An analysis of the order books of a representative sample of infrastructure companies, particularly those involved in road development, reveals that their aggregate order book declined by around 15% in the FY24 after growing by a healthy 15% in the previous year. However, in FY25, the situation has improved, with substantial new orders already secured, showing a 20.5% growth in just the first half of the year compared to end of FY24. The order book is expected to pick up further in the second half of the year. Most of the new orders are coming from the public sector, particularly from state governments.

Capex Push in the Power Sector

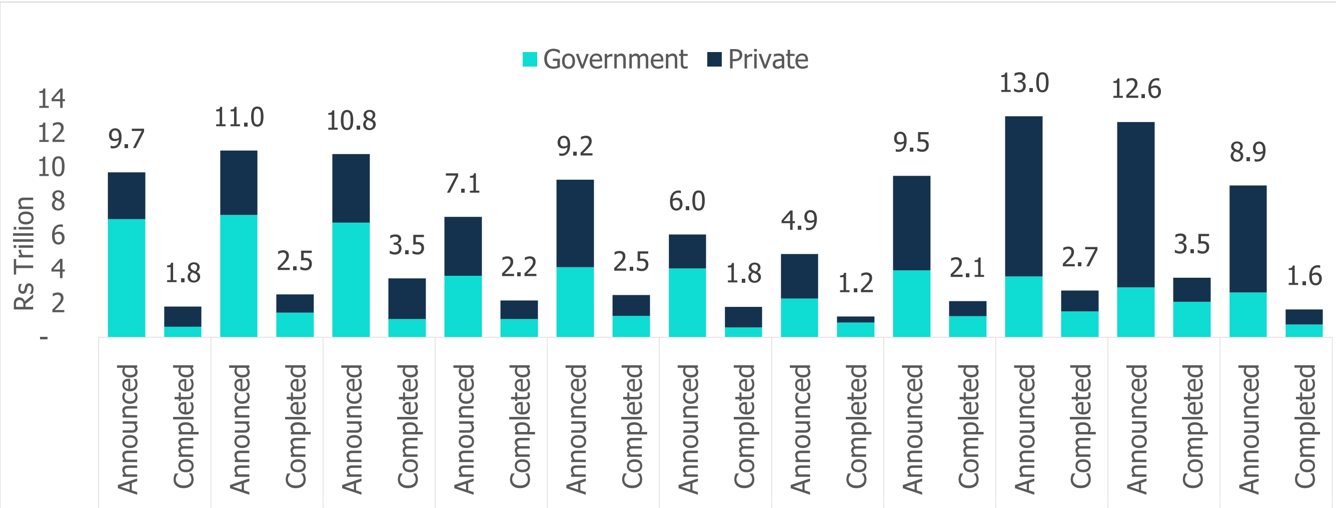
The power generation sector, including both listed and unlisted companies, is estimated to make a substantial capacity addition in FY25, fuelling a significant rise in capital expenditure in the sector. We estimate the capex for power generation sector, for both listed and unlisted companies, to grow at a CAGR of 13% for the period of FY25 to FY28. Within the power generation sector, capex in the solar, wind sectors is expected to grow at a CAGR of 10.7% and 16.4%, respectively for the period of FY25 to FY28. Increased capex in the power generation sector bodes well for the future growth potential of the economy.

Investment Projects Data Shows Weakness

Data on new investment projects announced, which is indicative of the investment intentions of the business enterprises in the economy, were lower by 29.5% YoY in H1 FY25, whereas investment projects completed dropped by 53% YoY in the same period (as per CMIE data). Not only were the investment announcements and completions lower than a year ago, but they also fell short of the half-yearly (H1) average seen over the last decade. This is mainly because of poor data for Q1 FY25 due to election-related restrictions and uncertainties. While the data for both completions and announcements, show an improvement in Q2 FY25, it remains below the quarterly average seen in the last three years.

In terms of composition, the investment announcements in H1 FY25 have been supported by the private sector with a share of 71%. However, project completions during the period showed a roughly equivalent share of the government as well as the private sector.

Figure 6: Investment Scenario - H1 Fiscal Year



Source: CMIE; Data extracted as on 29th October 2024; FY25 data may undergo revisions in the coming months

Manufacturing Sector Drives Investments Announced, Non-Financial Services Lead Completions

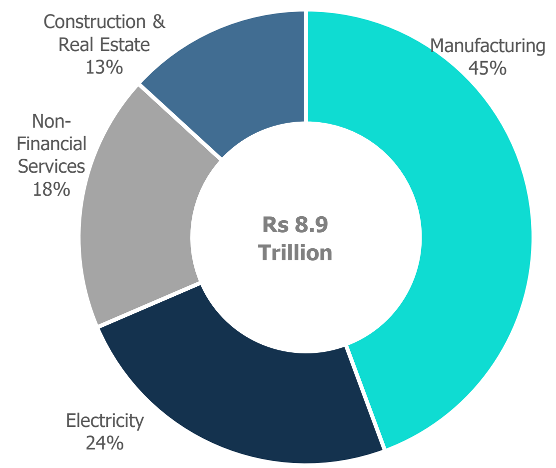
In the first half of the current fiscal, the investment announcements were focussed in the manufacturing sector (45% share). Within manufacturing, higher investment intent is seen in the transport (auto & ancillary) and chemicals segment, with a share of 25% each.

In H1 FY25, investment projects completed were particularly led by the non-financial services sector (43% share), mainly road transport services. However, the share of non-financial services (including road transport) in investment projects announced is lower at 18%.

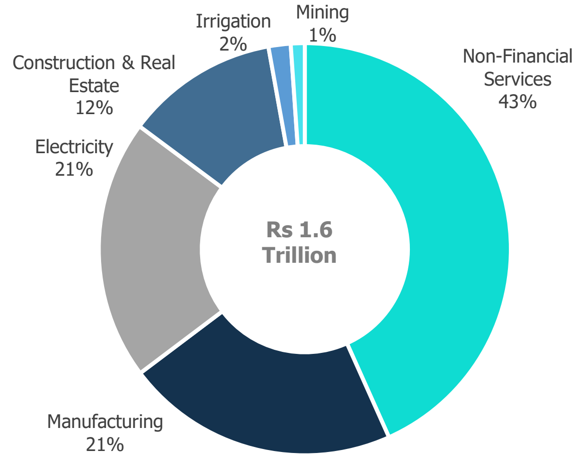
Figure 7: CMIE Investments Announced & Completed

CMIE Investment Projects Announced	CMIE Investment Projects Completed

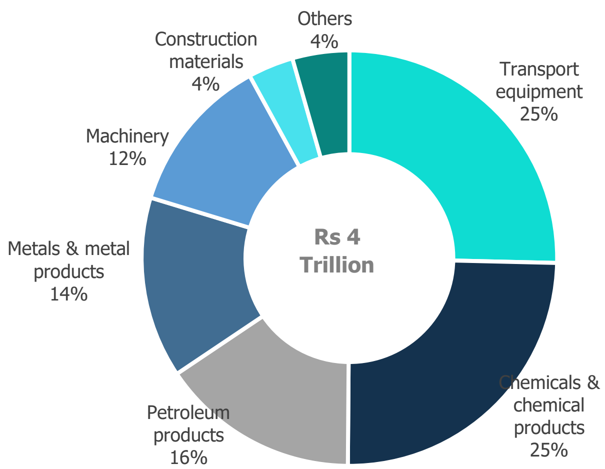
A. Investment Projects Announced - H1 FY25
Sectoral Share in Total Announcements



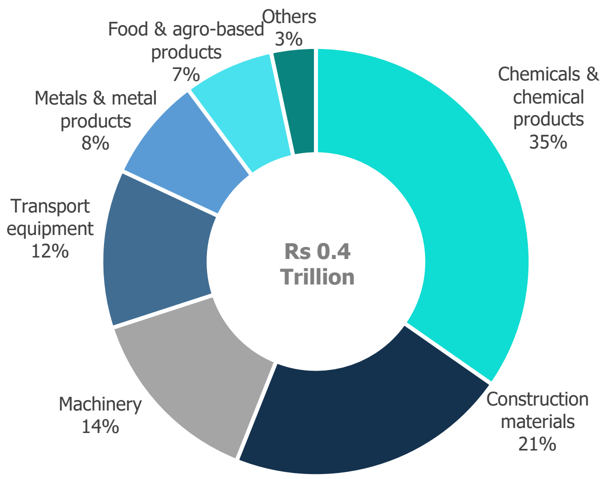
D. Investment Projects Completed - H1 FY25
Sectoral Share in Total Completions



B. Investment Projects Announced - H1 FY25
Share in Manufacturing Sector Announcements



E. Investment Projects Completed - H1 FY25
Share in Manufacturing Sector Completions



Note: Other manufacturing includes food & agro-based products, textiles, consumer goods and miscellaneous manufacturing

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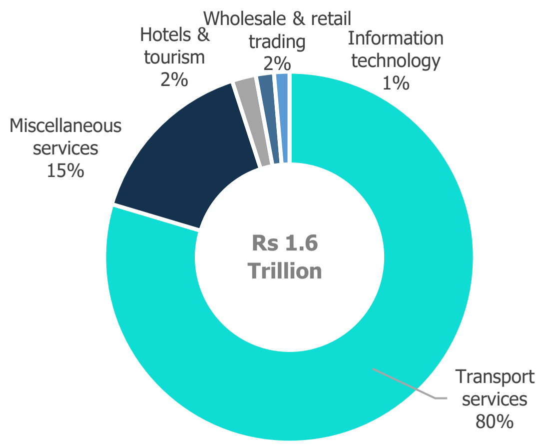
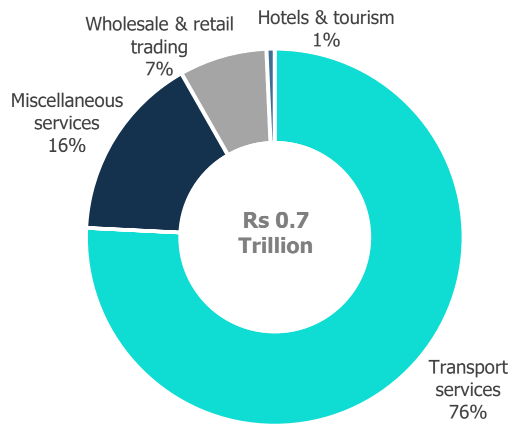
C. Investment Projects Announced - H1 FY25
Share in Services Sector Announcements



F. Investment Projects Completed - H1 FY25
Share in Services Sector Completions



Note: Transport services includes transport logistic services and road/railway/air/shipping transport & allied services

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Source: CMIE; Data extracted as on 29th October 2024; FY25 data may undergo revisions in the coming months

Maharashtra Leads the Investment Scenario

Continuing with the trend seen in the last fiscal, Maharashtra remains at the forefront of the investment scenario, leading in both – investment announcements as well as the completions. The private sector has been driving the new investment announcements in Maharashtra with a share of 71.5%. However, project completions have been led by the government sector with a share of 58%.

Table 3: State-wise Investment Scenario

Investment Projects Announced (Rs Billion)			
FY24		H1 FY25	
India	34,735	India	8,908
Maharashtra	7,031	Maharashtra	3,084
Gujarat	5,340	Rajasthan	1,090
Haryana	4,427	Uttar Pradesh	804
Odisha	2,576	Tamil Nadu	457
Rajasthan	2,562	Madhya Pradesh	415
Tamil Nadu	1,854	Gujarat	313
Karnataka	1,854	Odisha	306
Uttar Pradesh	1,152	Telangana	292
Telangana	1,022	Karnataka	290
Andhra Pradesh	921	Haryana	131

Investment Projects Completed (Rs Billion)			
FY24		H1 FY25	
India	9,245	India	1,643
Maharashtra	1,277	Maharashtra	309
Gujarat	828	Uttar Pradesh	219
Uttar Pradesh	772	Karnataka	189
Andhra Pradesh	652	Tamil Nadu	142
Tamil Nadu	578	Rajasthan	140
Chhattisgarh	531	Gujarat	105
Rajasthan	517	Madhya Pradesh	93
Karnataka	393	Telangana	90
Haryana	333	Andhra Pradesh	86
Madhya Pradesh	319	Odisha	34

States with missing data for some quarters have been excluded from the table

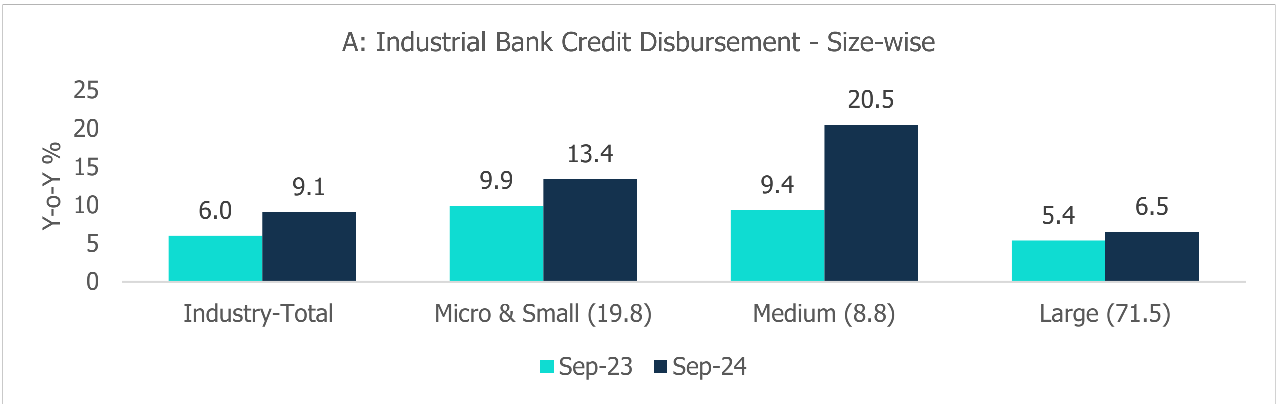
In terms of sectoral composition, the manufacturing sector makes up for 40% of the investment announcements in Maharashtra in H1 FY25. Within manufacturing, the transport equipment category alone accounts for 29% of the total investment announcements. The other major sectors are electricity and construction & real estate, constituting shares of 25% and 21%, respectively. In the investment projects completed, transport services (specifically railway and road) top with a share of 64% of the total completions of H1 FY25.

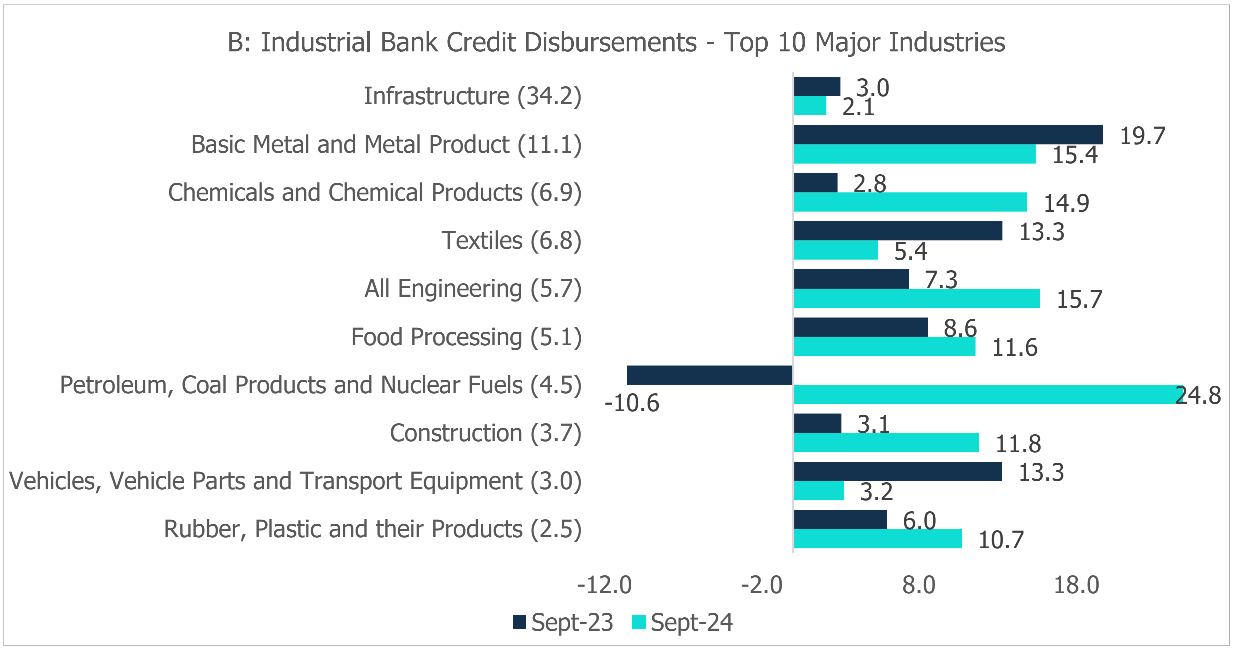
Sources of Financing

Bank Credit

Bank credit to industrial sector grew at 9.1% as of September 2024 accelerating from 6% at the same time last year. Specifically, bank credit to large industries (constituting a share of 71.5%) increased by 6.5% as of September 2024 compared to 5.4% last year. Across the major industries, an acceleration in bank credit growth was seen in categories such as the chemicals, engineering, food processing, petroleum, construction and rubber & plastic products.

Figure 8: Overview of Industrial Bank Credit Growth



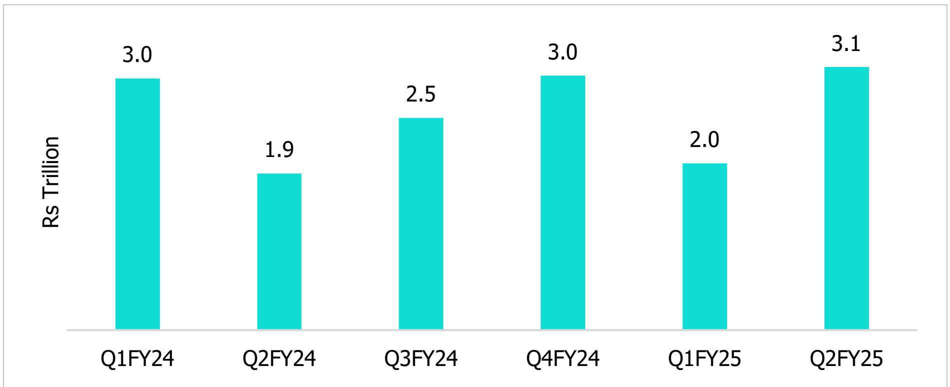


Source: RBI; Note: Bank credit data since July 2023 includes the impact of the merger of a non-bank with a bank; Only the total industrial credit growth data is adjusted to exclude the impact of the merger; Figures in bracket represent percentage share in total industrial bank credit

Corporate Bond Issuances

The corporate bond issuances were low in Q1 FY25 due to election related uncertainties, falling by 33.7% YoY but picked up significantly in Q2 FY25, with YoY growth of 67.9%. Corporate bond issuances are expected to rise in the coming years with increased capex projected by corporates. Further, the likely rate cut cycle is expected to give impetus to more corporate bond issuances, with decreased cost of money.

Figure 9: Corporate Bond Issuances

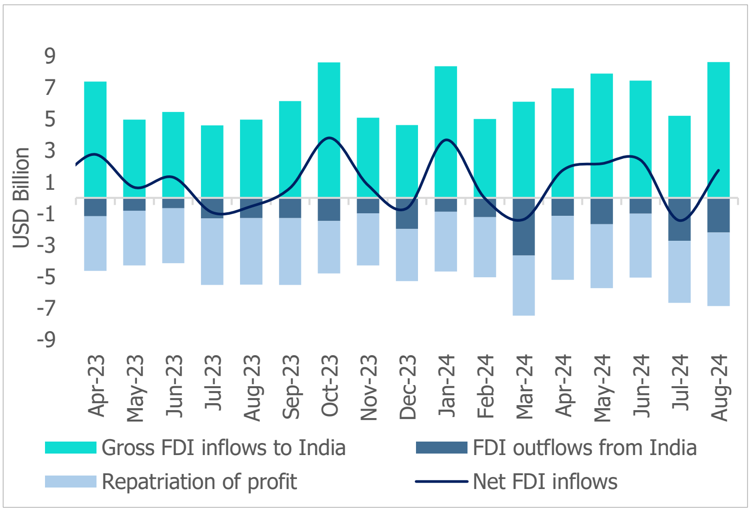


External Sources

In the external landscape, net foreign direct investment (FDI) inflows contracted by 64% YoY to USD 10.1 billion in FY24, largely on account of higher repatriation of profit. However, gross FDI inflows remained largely unchanged in FY24 at USD 71.3 billion compared to FY23.

Net FDI inflows during the April-August period of FY25 demonstrated a significant recovery, increasing by 103% YoY to reach USD 6.6 billion. Gross inward FDI for the same period rose to USD 36.1 billion, compared to USD 27.4 billion a year prior. However, FDI outflows from India and profit repatriations also surged in the April-August period of FY25. Looking ahead, healthy economic momentum and India's growing position as an alternative manufacturing hub to China are likely to continue attracting FDI inflows. Despite benefitting to some extent from the China+1 strategy, India has lagged peer countries such as Vietnam and Mexico in capturing manufacturing investments relocating from China.

Figure 10: Monthly FDI Inflows



Source: RBI and CareEdge

The external commercial borrowing (ECB) reached 4 years high at USD 48.6 billion in FY24 rising 92% YoY. However, in the April- August period of FY25, ECB issuances fell by 22% YoY to USD 20.2 billion compared to same period last year. This decrease can be largely attributed to higher global borrowing costs. The overall cost of ECBs rose by 37 bps during April-August 2024.

Conclusion

The capex story in the fiscal year so far has remained largely muted. This can be attributed to several factors such as the election-related restrictions in Q1, geopolitical uncertainties, subdued domestic demand, oversupply from China, and relatively higher borrowing costs.

Looking ahead, there remains potential for recovery in public capex during the remainder of the fiscal year. On the private capex front, the encouraging order book scenario of the capital goods and infrastructure sector in FY24 points towards an encouraging capex outlook. It could also be indicative of likely pick up in capex in other sectors going forward. Furthermore, with deleveraged corporate balance sheets, the conditions seem favourable for an upturn in the private capex cycle. On the monetary policy front, major central banks opting for policy rate cuts is becoming a dominant trend globally. We feel there is a likelihood of the RBI beginning a shallow rate cut cycle by the last quarter of FY25.

Overall, while there is optimism about the capex scenario in the economy, we remain watchful of the challenges emerging from weakness in domestic demand, geopolitical uncertainties, and external vulnerabilities. Weak domestic demand in China and subsequent increased dumping in other markets like India, will continue to pose a challenge. Additionally, a broad-based and durable recovery in domestic consumption remains a critical monitorable for supporting the capex cycle over the medium term.

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