

Investment Activity in India

Contact:

Madan Sabnavis
 Chief Economist
 madan.sabnavis@careratings.com
 91-022-6837 4433

Author:

Natasha Trikha
 Research Analyst– Industry Research
 natasha.trikha@careratings.com
 91-022-6837 4345

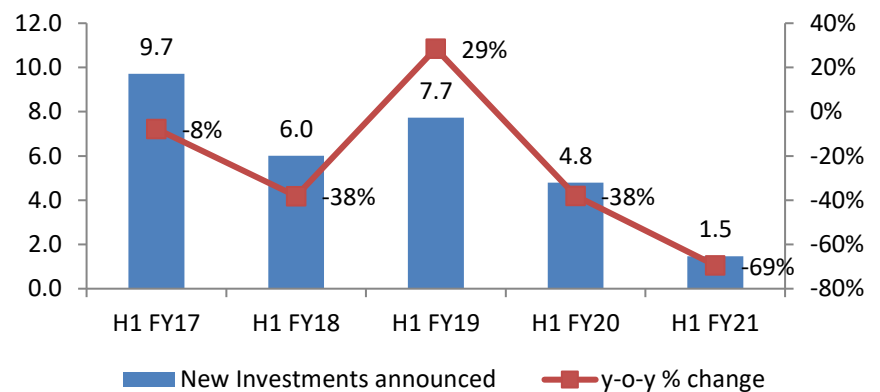
Mradul Mishra (Media Contact)
 mradul.mishra@careratings.com
 91-22-6754 3573

Disclaimer: This report is prepared by CARE Ratings Ltd. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report.

Investments announced for new projects have been falling for the past 5 years for the period April – September with the exception of H1 FY19 where it rose by 29% y-o-y to Rs 7.7 lakh crore from Rs 6 lakh crore in H1 FY18.

New projects announced for H1 FY21 fell sharply by 69% to Rs 1.5 lakh crores compared with Rs 4.8 lakh crores last year. This sharp fall was owing to the lack of economic activity due to the pandemic induced lockdown announced nationally in the last week of March 2020. As the enterprises were faced with Covid-19 induced challenges, they focussed on survival. Hence the decline in capex investments was somewhat expected.

Chart 1: New investment projects announced (in Rs lakh crore)

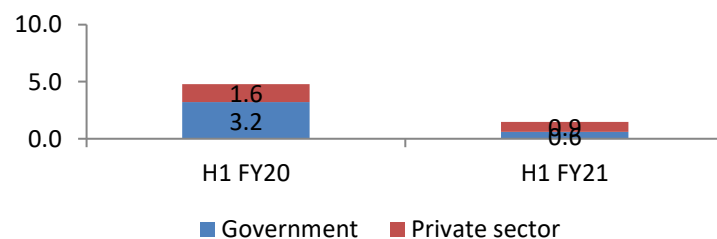


Source: CMIE

Note: Data as updated on 01 Nov 2020 09:49:58 AM

The fall in H1 FY21 was driven by an 81% decline in projects announced by government. The new capex projects proposed by the government decreased from Rs 3.2 lakh crore in H1 FY20 to Rs 0.6 lakh crore in H1 FY21. Similarly, investments proposed by the private sector fell by 45% y-o-y to Rs 0.9 lakh crore in H1 FY21 in comparison with Rs 1.6 lakh crore in the same period last year.

Chart 2: New capex projects announced by ownership (in Rs lakh crore)



Source: CMIE

Note: Data as updated on 01 Nov 2020 09:49:58 AM

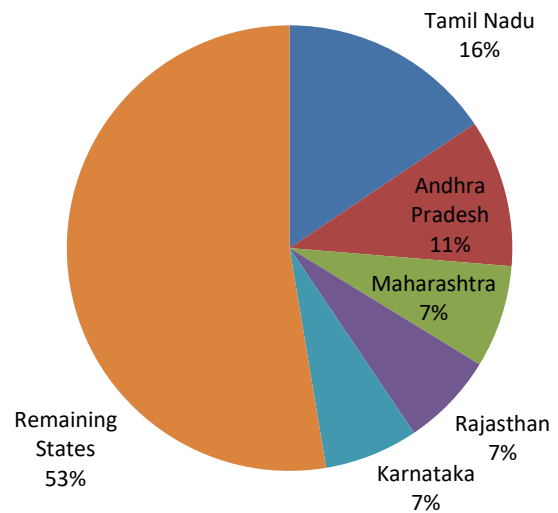
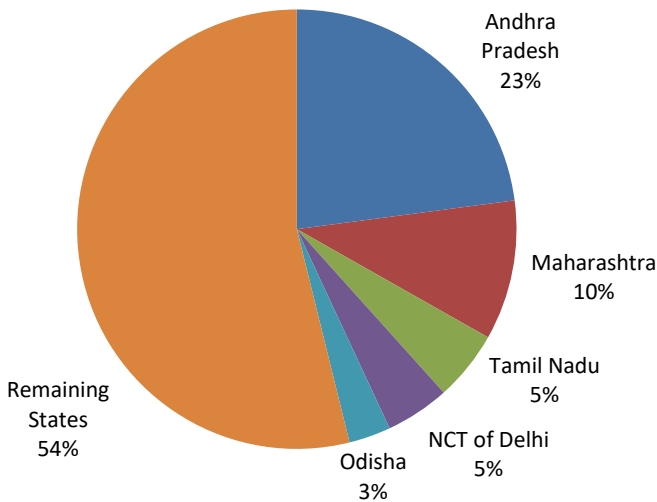
States wise segregation

In H1 FY20, Andhra Pradesh had the highest share of 23% in the capex projects announced, totalling Rs 1.1 lakh crore while in H1 FY21, Tamil Nadu had the highest share of 16% in the investments proposed amounting to Rs 0.2 lakh crore.

According to CMIE, On June 15, 2020 Maharashtra government announced signing of 12 memoranda of understanding (MOU) for investments worth Rs 0.2 lakh. Similarly, 17 MOUs were signed for Tamil Nadu on May 27, 2020 out of which 14 were included in the data released by CMIE.

Chart 3: Share of top 5 states in new investments announced in H1 FY20

Chart 4: Share of top 5 states in new investments announced in H1 FY21



Source: CMIE

Note: Data as updated on 01 Nov 2020 09:49:58 AM

Industry wise segregation

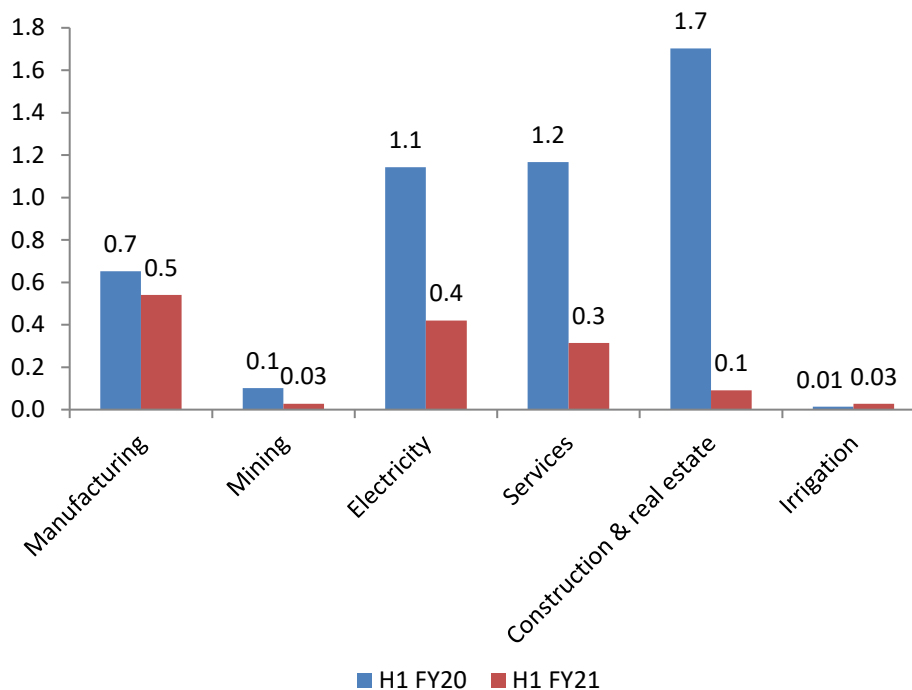
In H1 FY21, the highest decline in the new capex projects announced was witnessed in the construction & real estate industry, a 95% y-o-y fall from Rs 1.7 lakh crore in H1 FY20 to Rs 0.1 lakh crore in H1 FY20. As per the data released by RBI for sectoral deployment of bank credit, the credit extended to construction industry rose by 5% only from Rs 0.58 lakh crore in H1 FY20 to Rs 0.61 lakh crore in H1 FY21.

In addition, within the services industry, capex projects proposed in the IT services in particular experienced a rise of 91% from Rs 0.08 lakh crore in H1 FY20 to Rs 0.14 lakh crore in H1 FY21. On the other hand, investments proposed in other services such as hotels & tourism and transport services witnessed a decline of 96% and 88% y-o-y respectively. Hospitality and travel were some of the adversely affected sectors due to Covid-19 induced lockdown and challenges.

Also, electricity and mining industries too witnessed a fall of 63% and 72% in new investments proposed respectively for H1 FY21 in comparison with H1 FY20.

Lastly, the capex projects proposed in the manufacturing industry declined by 17% from Rs 0.7 lakh crore in H1 FY20 to Rs 0.5 lakh crore in H1 FY21. Chemicals and chemical products attracted the highest share of 45% (Rs 0.2 lakh crore) in the manufacturing industry for new capex projects proposed in H1 FY21.

Chart 5: Industry wise segregation of new capex projects announced (in Rs lakh crore)



Source: CMIE

Note: Services exclude financial services

Note: Data as updated on 01 Nov 2020 09:49:58 AM

IIP – Index of Industrial Production that measures the industrial production when viewed from the perspective of economy-based classification recorded a negative y-o-y growth for the period of April – August-20. This contraction in IIP (April – August 2020) somewhat corroborates with the decline in capex projects proposed for H1 FY21 as due to Covid-19 induced business challenges, companies for now seem to be focussing on normalising their business operations. Hence, it is expected that capacity expansion may not be in the pipeline soon.

Table 1: Sector wise breakup of IIP growth (Y-o-Y %)

	April – August - 19	April – August - 20
General Index	2.5	-25.0
Mining	2.8	-18.2
Manufacturing	2.1	-27.9
Electricity	5.3	-10.4

Source: MOSPI

Concluding remarks:

- The investments proposed have been on a decline for the past 5 years for the period April – September with the exception of H1 FY19 where it rose by 29% y-o-y to Rs 7.7 lakh crore from Rs 6 lakh crore in H1 FY18
- For H1 FY21, the project investments proposed plunged by 69% due to imposition of nationwide lockdown which led to new challenges
- In terms of ownership, capex projects proposed by both the government and private sector fell in H1 FY21 in comparison with same period last year
- In comparison with H1 FY20, Andhra Pradesh, Tamil Nadu and Maharashtra continued to be in the top 5 states in terms of share of new investments announced in H1 FY21
- When compared industry wise, real estate and construction sector witnessed the highest y-o-y fall of 95% in H1 FY21 with respect to investments proposed whereas for manufacturing sector, the decline was 17% only
- IIP contracted for the period April – August 2020 which seems to be in line with fall in capex projects proposed for H1 FY21
- With the unlock guidelines and ease of restrictions domestically and globally, it is expected that the businesses will take time to normalise operations, hence new capex projects may not be in the pipeline soon

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022. CIN: L67190MH1993PLC071691
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457
E-mail: care@careratings.com | Website: www.careratings.com

Follow us on  /company/CARE Ratings
 /company/CARE Ratings