19 April 2023

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Update on investment scenario and its funding

Investment picture in FY23 was fuzzy. Different dimensions emerge from the CMIE capex data. While new project announcements have reached an all-time high in FY23, the picture is not even across sectors. Most of these announcements were in the services sector (transport services). Manufacturing showed only modest pickup with major capital creating sectors such as machinery, metals on the other hand noting considerable drop in announcements in FY23 compared to FY22. Apart from new announcements, even revival rate of projects have dropped to lower levels. The gestation period of projects have also increased, reflective of increased economic cost of capital and also delayed completion of projects.

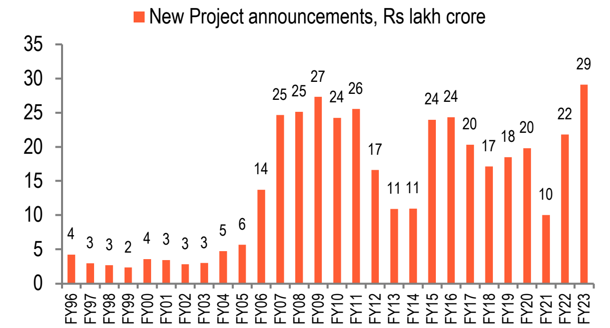
On the funding side as well, the story is mixed. Bank credit, the primary source of funding shows that credit off take to industry has been far below the normal pace of credit accretion in FYTD23. Notably, 8 out of the 19 sub-industries which are monitored by RBI, showed credit growth even below 4.3%, which is industry level pace of credit accretion in FYTD23 (April-Feb). Funding through the corporate debt market has also remained skewed. Funds raised from primary market again remained inclined towards services sector, with manufacturing share dropping sharply in the equity segment. Funding through the ECB route has been impacted due to higher capital cost in a rising interest rate regime. But the purpose wise proposals show some degree of respite as here the share of new projects and import of capital goods have increased, which indicated some improved sentiments with regard to investment climate.

Investment in FY23 showed mixed picture:

CMIE data reflected some buoyancy on investment front as new project announcements picked up considerably, reaching an all-time high of Rs 29 lakh crore in FY23 compared to Rs 22 lakh crore in FY22. Basically, this indicator expresses the intentions of business enterprises; albeit all the announcement may not necessarily translate into actual investment. The major pickup is attributable to services sector (other than financial), where new announcements picked up to Rs 10.3 lakh crore in FY23 compared to Rs 5.2 lakh crore in FY22. Within services, the sharp increase has happened for transportation sector where new announcements rose to Rs 8.8 lakh crore in FY23 compared to Rs 3.9 lakh crore in FY22. The announcements made by the airlines industry were major contributors here.

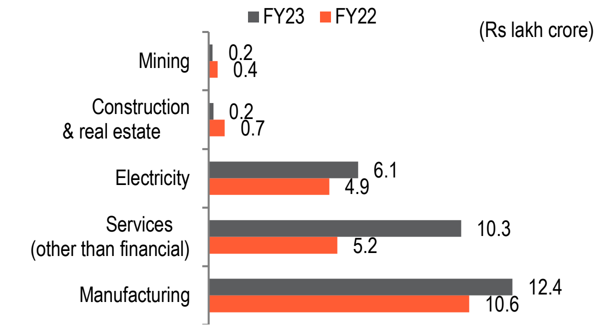
Manufacturing and electricity sector also witnessed improvements. However, within manufacturing, the increase is not broad based. Except chemical and products (where new announcements picked up to Rs 7.3 lakh crore in FY23 from Rs 3 lakh crore in FY22), all sub sectors noted drop in announcements. In fact, for capital creating segments such as machinery and metals and products, considerable drop in announcements have been noticed.

Figure 1: New project announcements touched an all-time high in FY23



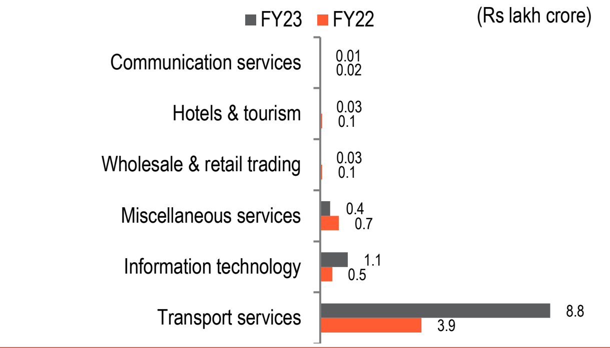
Source: CMIE, Bank of Baroda Research

Figure 2: Majority of it is driven by services sector



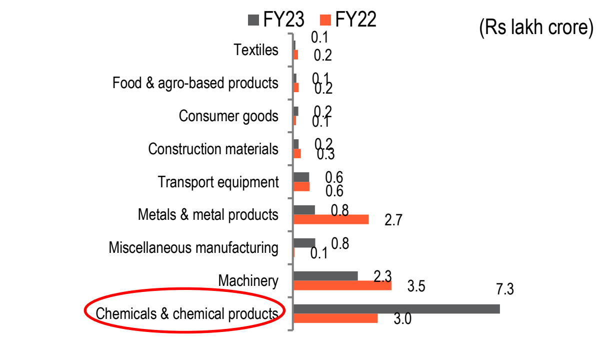
Source: CMIE, Bank of Baroda Research

Figure 3: Within services, only transportation sector showed sharp increase



Source: CMIE, Bank of Baroda Research

Figure 4: Within manufacturing, skewed picture

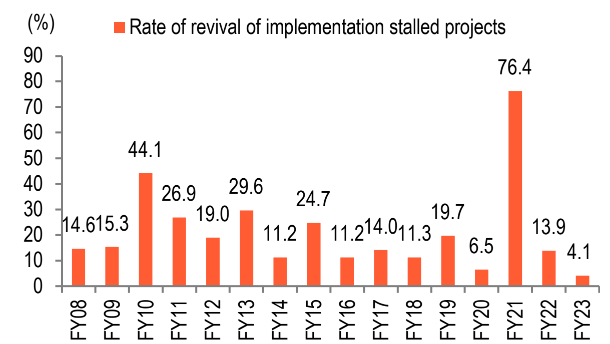


Source: CMIE, Bank of Baroda Research

Two pain points:

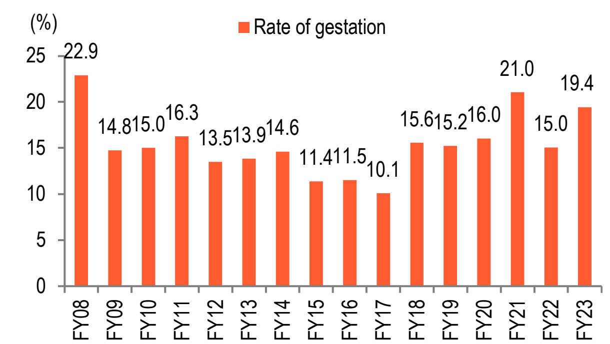
- The revival rate of projects has gone down significantly in FY23. This is indeed worrisome because it indicates that revival of implementation stalled projects has increased. 'Implementation stalled projects' are those that have gone beyond the stage of a mere announcement and stalled post implementation. Hence increase in the quantum of those projects incurs higher economic cost of capital.
- Rate of gestation of projects have also increased in FY23, which are reflective of the fact that projects are getting delayed.

Figure 5: Revival rate of projects have fallen to an abysmally low level



Source: CMIE, Bank of Baroda Research, Note: This ratio measures the revival of these projects against the stock of all implementation-stalled projects

Figure 6: Even gestation period of projects got dragged

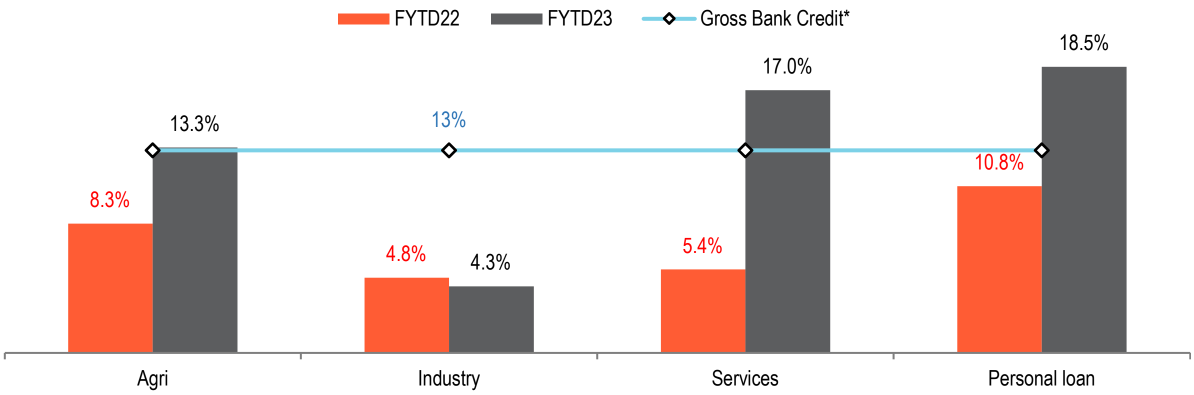


Source: CMIE, Bank of Baroda Research Note: Rate of gestation measures the time taken in months to spend R.1 bn in projects that were completed during a period, where the period could be a quarter or a year

How sources of funding for investment fared?

1. **Credit to industry still a laggard:** Despite a double digit pickup in overall credit, credit to industry has remained low. In FYTD23 (Mar-Feb'23), credit growth to industry has been just 4.3%, which is far below overall credit growth of 13% noted during the same period. Notably, 8 out of the 19 sub-industries showed credit growth of less than 4.3%, which is industry level growth.

Figure 7: Credit accretion to industry has been a major disappointment



Source: CEIC, Bank of Baroda Research, Note: FYTD: till Feb,* On FYTD basis

Table 1. Credit off take picture in industry sub segment not very bright

Major Industries	FYTD22	FYTD23
Mining and Quarrying	8.7%	16.7%
Food Processing	7.3%	2.6%
Beverage and Tobacco	0.3%	21.6%
Textiles	8.2%	-0.7%
Leather and Leather Products	5.3%	-0.8%
Wood and Wood Products	6.1%	17.9%
Paper and Paper Products	6.6%	5.0%
Petroleum, Coal Products and Nuclear Fuels	23.5%	36.1%
Chemicals and Chemical Products	0.0%	8.5%
Rubber, Plastic and their Products	25.7%	7.6%
Glass and Glassware	-12.4%	33.3%
Cement and Cement Products	-16.9%	14.6%
Basic Metal and Metal Product	-7.8%	16.8%
All Engineering	5.8%	3.2%
Vehicles, Vehicle Parts and Transport Equipment	1.7%	9.0%
Gems and Jewellery	4.7%	-6.2%
Construction	-2.0%	2.3%
Infrastructure	7.0%	-1.3%
Other Industries	8.3%	0.7%

Source: RBI, Bank of Baroda Research, Note: Sectors where credit growth has been lower than the industry average of 4.3% have been highlighted, Note: FYTD: till Feb

2. **Corporate Debt:** Capital raising through the private placement route has remained buoyant. It picked up from Rs 5.9 lakh crore in FY22 to Rs 6.6 lakh crore in FYTD23 (Apr-Feb), whereas capital raising through the public issue route has dropped in FYTD23 to Rs 8,726 crore in FY22 from Rs 11,589 crore in FY22. Even out of this Rs 8,726 crore, major capital raising has been

by NBFCs or HFCs. Only infra company raising capital was National Highways Infra Trust with a final issue size of Rs 1,500 crore.

CMIE data on debt raised in the market in FY23 places the total for the year at Rs 7.68 lakh crore. Of this amount the largest shares were financial services at 73% followed by telecom with 9%. Power and refineries had shares of around 3% each. Therefore, there was no major push from the non-financial services side on investment.

Figure 8: Private placement still the preferred route for debt

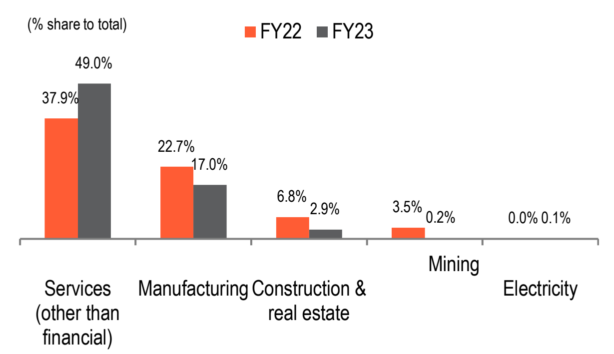
Source: CEIC, Bank of Baroda Research, Note: FYTD: till Feb

3. Equity markets

- If we look closely at the share of industries with respect to funds raised in the primary market in equity segment, it clearly reflects that most of the space is dominated by services sector (other than financial). Manufacturing sector has a relatively low share. In fact through the equity route, the share of manufacturing has considerably come down in FY23.

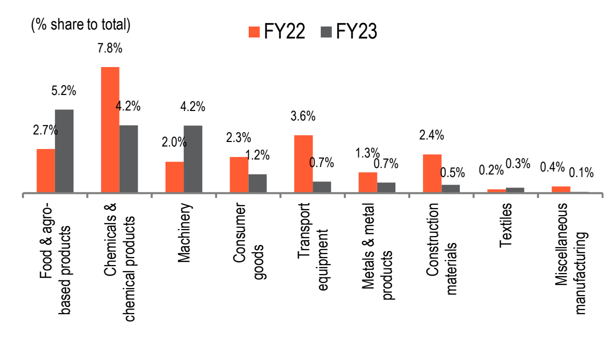
- Out of Rs 1.39 lakh crore raised in FY23 through the equity route by all industries, share of manufacturing is just 17% from 22.7% seen in FY22. On the other hand, services sector (other than financial) has a share of 49%.

Figure 9: Funds raised from primary market through equity shows services sector dominate



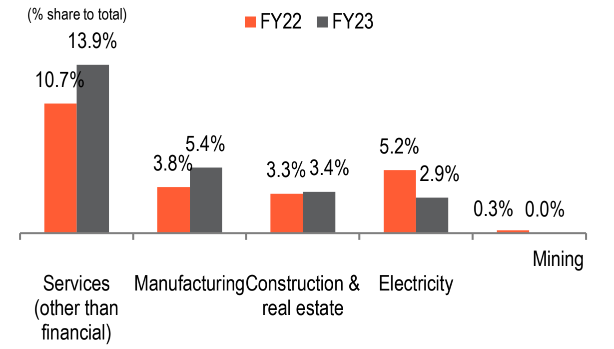
Source: CMIE, Bank of Baroda Research, Note: the shares do not add to 100, because it adds up to the total share in non-financial sector, whose underlying sub components are these sectors

Figure 10: Within manufacturing, except food and agro products, shares have dropped across the board



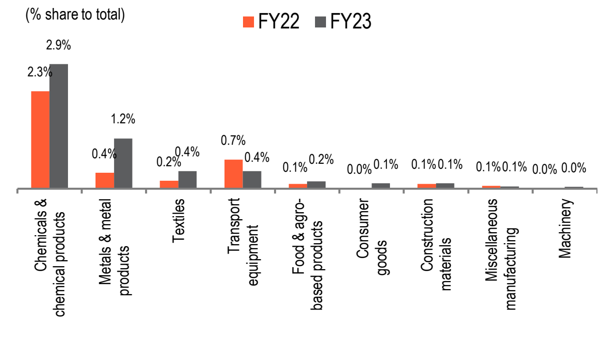
Source: CMIE, Bank of Baroda Research CMIE, Bank of Baroda Research, Note: Shares do not add to 100, because it adds up to the total share in manufacturing sector, whose underlying sub components are these sectors

Figure 11: Funds raised from primary market through debt route also shows dominance of service sector



Source: CMIE, Bank of Baroda Research, Note: Shares do not add to 100, because it adds up to the total share in non-financial sector, whose underlying sub components are these sectors

Figure 12: Except chemicals and metals, manufacturing picture is pretty muted

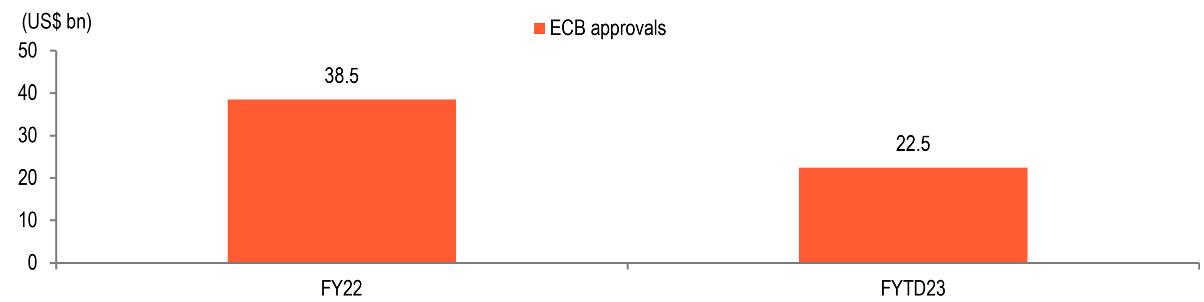


Source: CMIE, Bank of Baroda Research CMIE, Bank of Baroda Research, Note: Shares do not add to 100, because it adds up to the total share in manufacturing sector, whose underlying sub components are these sectors

4. **Foreign funding:**

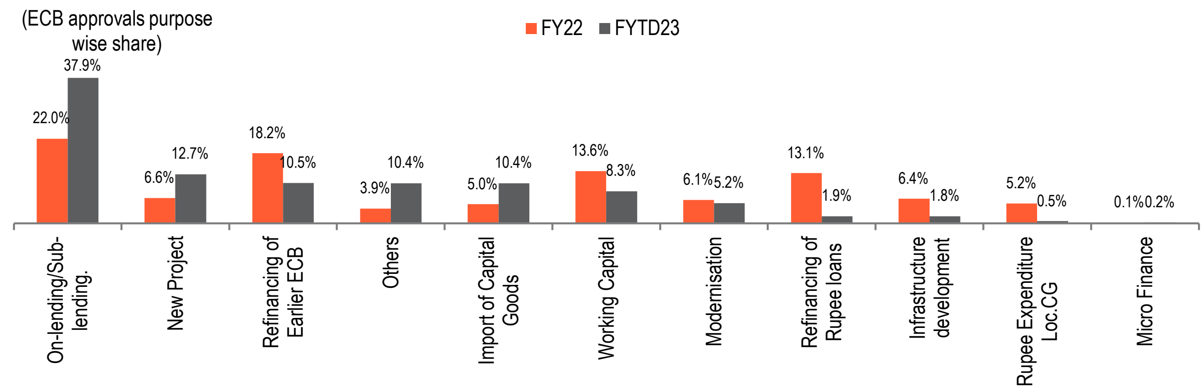
   Through ECB: Borrowing through the ECB route (both automatic and approval route) has been lower at US$ 22.5bn in FYTD23 compared to US$ 38.5bn in FY22. Higher borrowing cost in the rising interest rate regime, attributed to the same. If we look at the approvals purpose wise, an interesting thing which comes out is that the share of new projects in total approvals have picked up to 12.7% in FYTD23 from 6.6% in FY22, which signals some extent of investment intentions in the economy. Even share of import of capital goods rose to 10.4% in FYTD23 from 5% in FY22.

Figure 13: Borrowing through the ECB route has moderated in the rising interest rate environment



Source: RBI, Bank of Baroda Research Note: FYTD: till Feb

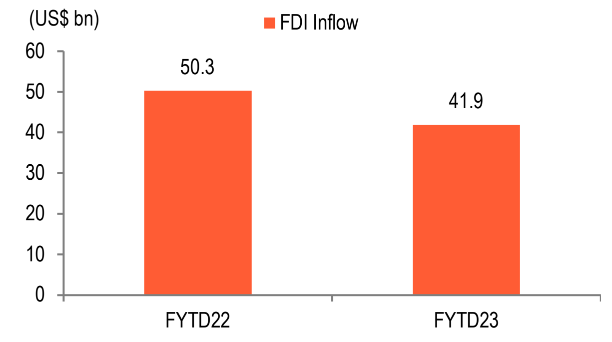
Figure 14: Purpose wise, on lending/ sub lending dominate the ECB space, though share of new projects have picked up considerably in FYTD23



Source: RBI, Bank of Baroda Research Note: FYTD: till Feb

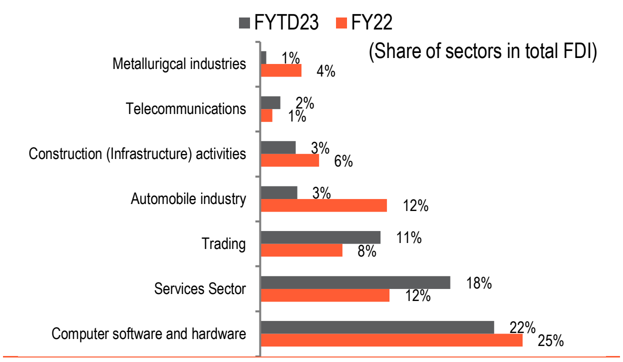
FDI inflow: Due to uncertain global macros on the back of tightening financial conditions, FDI inflows in FYTD23 have dropped to US$ 42bn in FYTD23 compared to US$ 50bn seen in the same period of previous year. Sector wise, service sector continues to dominate the FDI space as well. In fact for industrial activities such as infrastructure, automobile and metallurgy, the share of FDI inflow has fallen in FYTD23.

Figure 5: FDI inflow in FYTD23 moderated



Source: CEIC, Bank of Baroda Research, Note: FYTD: till Jan

Figure 6: Share of industry is comparatively smaller



Source: CEIC, Bank of Baroda Research, Note: FYTD: Apr-Dec

Conclusion:

- Investment climate still poses a certain degree of uncertainty. While CMIE new project announcements rose to an all-time high, there is considerable degree of asymmetry noticed in different sectors.
- Announcements in capital creating segments have been a laggard in FY23. Other than this, the low rate of revival of projects and higher gestation period poses considerable risks.
- On the funding side as well, the picture is fuzzy.
- Bank credit-the primary source of funding has remained muted especially when it comes to credit off take to industry.
- In the primary market, mobilization of funds is mostly concentrated in the services sector both for debt and equity segments.
- ECB inflows despite showing some softening, the share of new projects and capital goods imports in the total approvals received have picked up considerably in FYTD23, which is showing that some degree of investment intention is gaining momentum.

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