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What's the latest on non-government investment?

Investment picture in FYTD24 i.e. H1FYTD24 has remained fuzzy. CMIE data shows that new project announcements have fallen to its lowest since Jun-04. Cumulative H1 figure is also far lower compared to same period of previous year. Sector wise, a sharp fall was witnessed in transportation sector, which was earlier propped up by aviation. Manufacturing has lagged though core capital goods such as machinery and metals showed moderate increase.

We tried to look at the funding side of investment as well to get a clear picture. But there as well, it remains blurry. Bank funding is tilted towards consumer driven retail loans, with industry falling far behind. However, here what is bit of a respite is that core capital goods sectors such as basic metals, engineering and infra are holding up better than the industry average in terms of growth.

Capital raising through debt and equity market is also bit confusing. Prima facie, through the debt route only NBFCs and HFCs are raising capital but our study has shown that NBFCs are in turn deploying their funds for lending to industry.

In terms of equity issuances in the primary market, manufacturing as well as core capital goods firms have fared well.

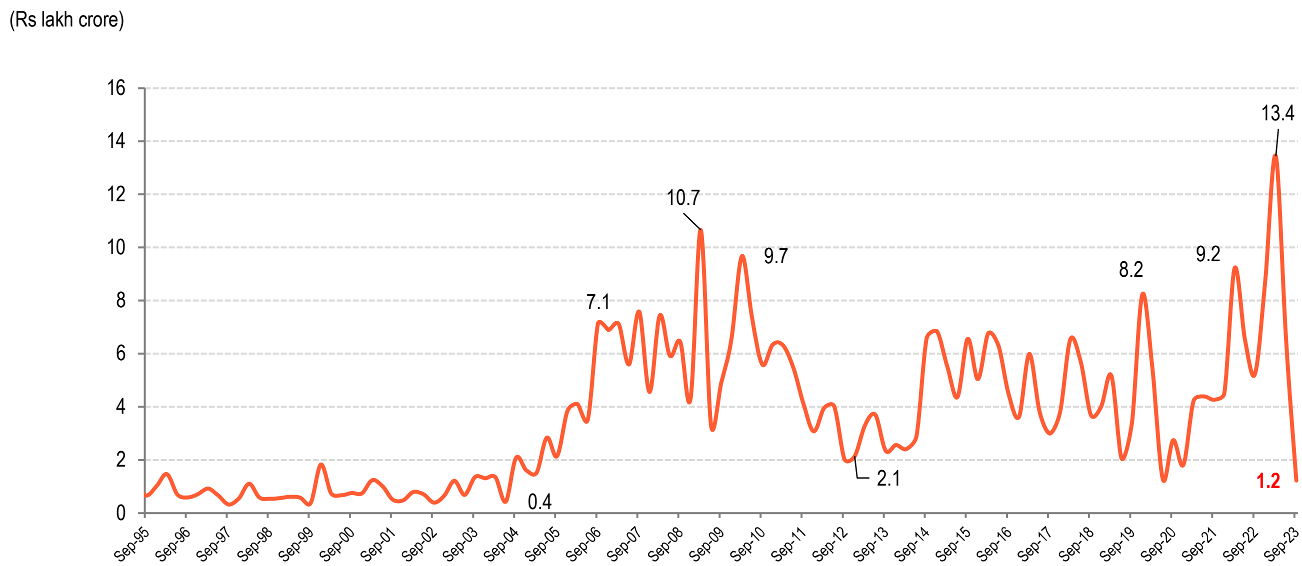
For foreign capital flows, ECB flows have picked pace but the sectoral flow of it is towards refinancing and on lending purpose with infra receiving a minor share in total flows.

For FDI as well, biasedness prevails towards services sector.

Investment in Q2FY24 started on a somber note:

CMIE data showed that new project announcements in Q2FY24 has fallen sharply. It amounted to Rs 1.2 lakh crore, which was the lowest level since Jun-04. The quarterly picture is indeed volatile and there is a certain trend in pattern of announcements that is seen historically. For example in Q2, generally the pace of announcement is weaker. But the drop in new project announcement in Q2FY24 is the lowest since Jun-04. Even cumulatively for H1FY24, the announcements stand much lower at Rs 7.8 lakh crore compared to previous year's level of Rs 11.8 lakh crore in the same period.

Figure 1: CMIE new project announcements in Q2 has fallen sharply

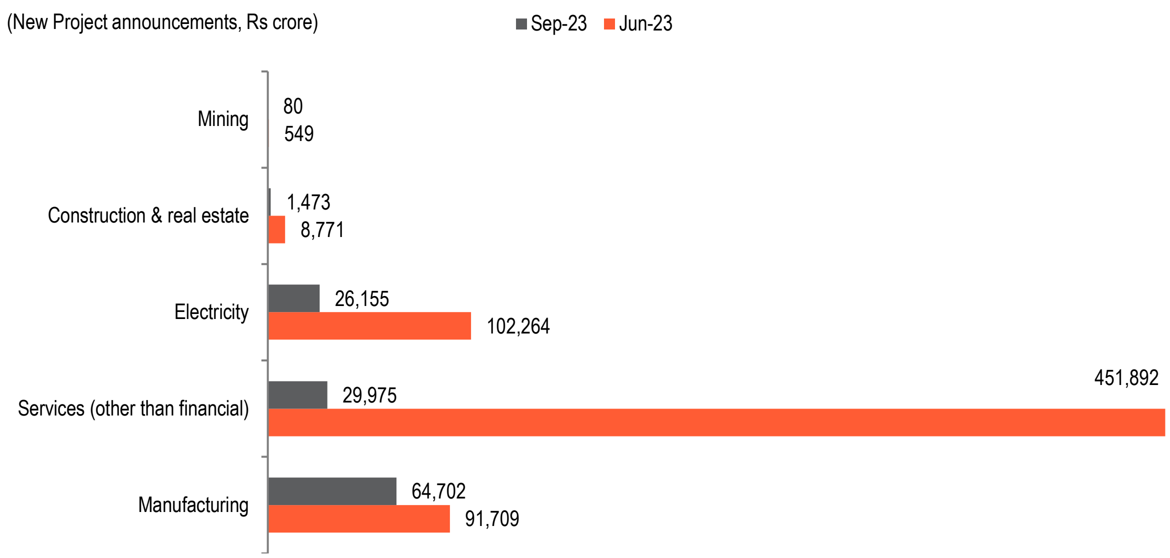


Source: CMIE, Bank of Baroda Research

Which sectors have been a drag?

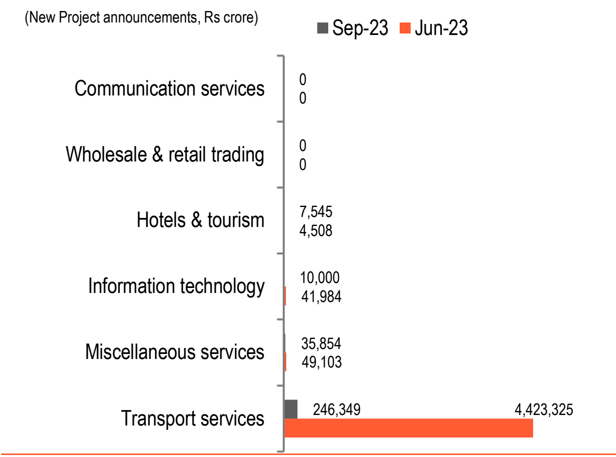
Two stories emerge; one is if we compare Sep-23 announcements with Jun-23 announcements. Here services sectors (other than financial services) have shown the sharpest fall; as this quarter did not receive any aviation related announcements which was the prime driver in the last quarter. The other sectors which noticed a sequential drop in new announcements were electricity and manufacturing. The other side of the story is that if we compare the Sep-23 announcements with Sep-22 announcements. Here manufacturing has shown the sharpest decline, led by chemicals and products, textiles, construction materials and transport equipment.

Figure 2: Sharpest drop was visible in services (other than financial services), followed by electricity and manufacturing



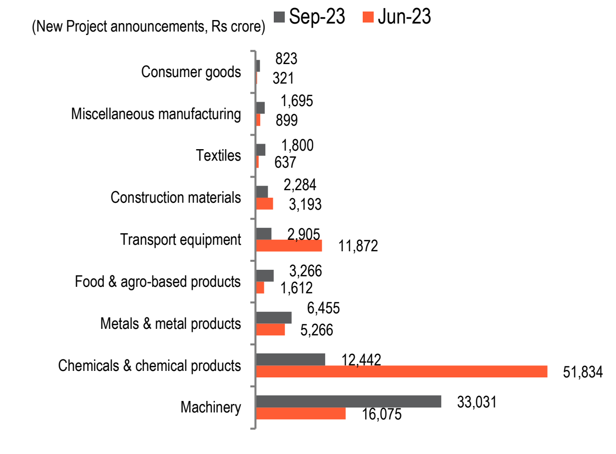
Source: CMIE, Bank of Baroda Research

Figure 3: Within services, transportation sector has witnessed highest decline



Source: CMIE, Bank of Baroda Research

Figure 4: Within manufacturing, chemicals, transport equipment and construction materials fell sharply

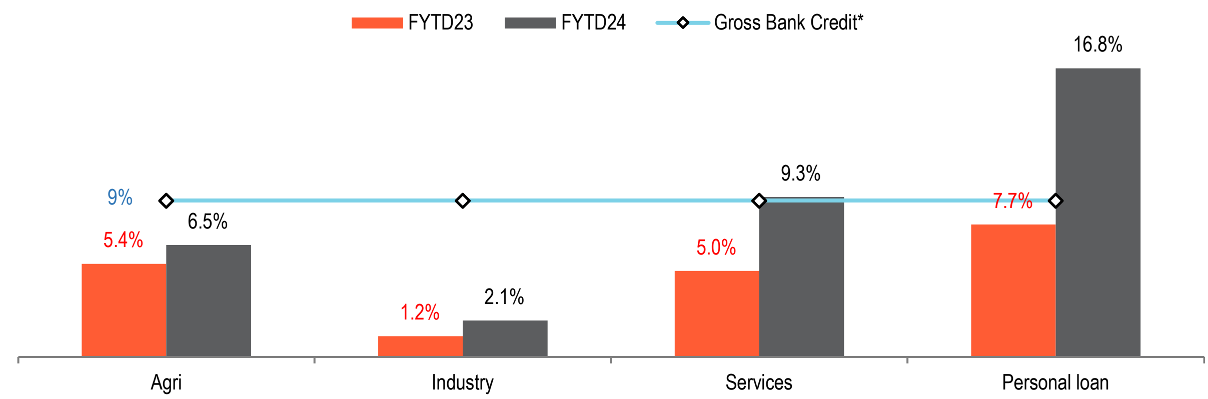


Source: CMIE, Bank of Baroda Research

How have sources of funding for investment fared?

1. **Credit to industry still a laggard:** Despite a robust FYTD pickup in overall credit, credit to industry has remained muted. In FYTD24 (Mar-Aug'23), credit growth to industry has been just 2.1%, which is far below overall credit growth of 9% noted during the same period. Notably, 7 out of the 19 sub-industries showed credit growth of less than 2.1%, which is industry level growth.

Figure 5: Credit accretion to industry has been a major disappointment, despite some pace of late



Source: CEIC, Bank of Baroda Research, Note: FYTD: Mar-Aug,* On FYTD basis

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

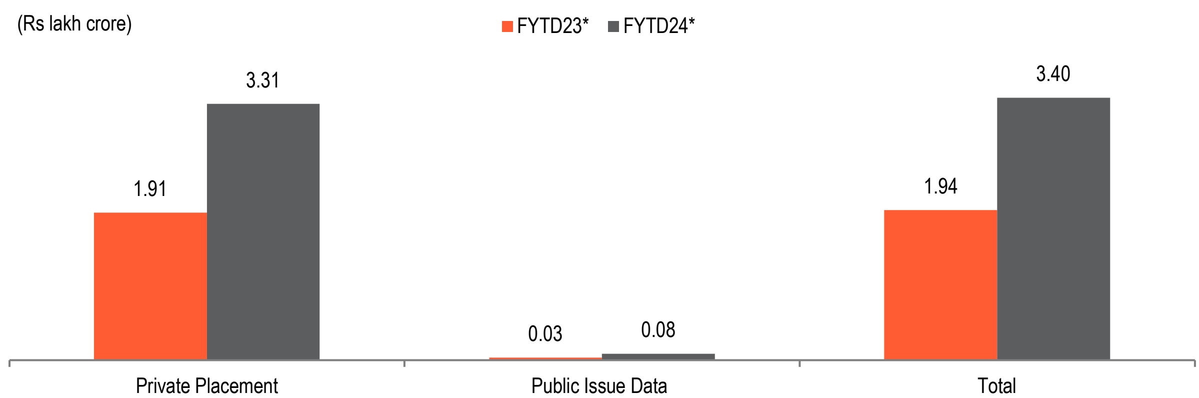
Major Industries	FYTD23	FYTD24
Mining and Quarrying	2.8	-13.8
Food Processing	-6.7	-4.0
Beverage and Tobacco	-4.7	4.5
Textiles	-5.2	4.1
Leather and Leather Products	-1.4	0.5
Wood and Wood Products	4.6	4.4
Paper and Paper Products	1.2	-1.9
Petroleum, Coal Products and Nuclear Fuels	26.1	-19.7
Chemicals and Chemical Products	7.3	-1.5
Rubber, Plastic and their Products	1.8	-1.1
Glass and Glassware	3.2	9.7
Cement and Cement Products	4.7	3.8
Basic Metal and Metal Product	3.6	3.4
All Engineering	-0.3	4.2
Vehicles, Vehicle Parts and Transport Equipment	0.3	6.8
Gems and Jewellery	-7.5	19.5
Construction	0.0	2.8
Infrastructure	1.6	3.2
Other Industries	-3.3	10.1

Source: RBI, Bank of Baroda Research, Note: Sectors where credit growth has been lower than the industry average of 2.1% have been highlighted, Note: FYTD: Mar-Aug

2. **Corporate Debt:** Capital raising through the private placement route has remained buoyant. It picked up from Rs 1.9 lakh crore in FYTD23 to Rs 3.3 lakh crore in FYTD24 (Apr-Aug), whereas capital raising through the public issue route has picked up to Rs 8,188 crore in FYTD24 from Rs 3,102 crore in FYTD23. Even out of this Rs 8,188 crore, major capital raising has been by raised by NBFCs and HFCs. Only infra company raising capital was Power Finance Corporation Limited with a final issue size of Rs 2,824 crore.

CMIE data on debt raised in the primary market in FYTD24 (Till Sep'23) places the total for the year at Rs 3.7 lakh crore. Of this amount the largest shares were financial services at ~86%.

Figure 6: Private placement-the preferred route for debt



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

3. Equity markets

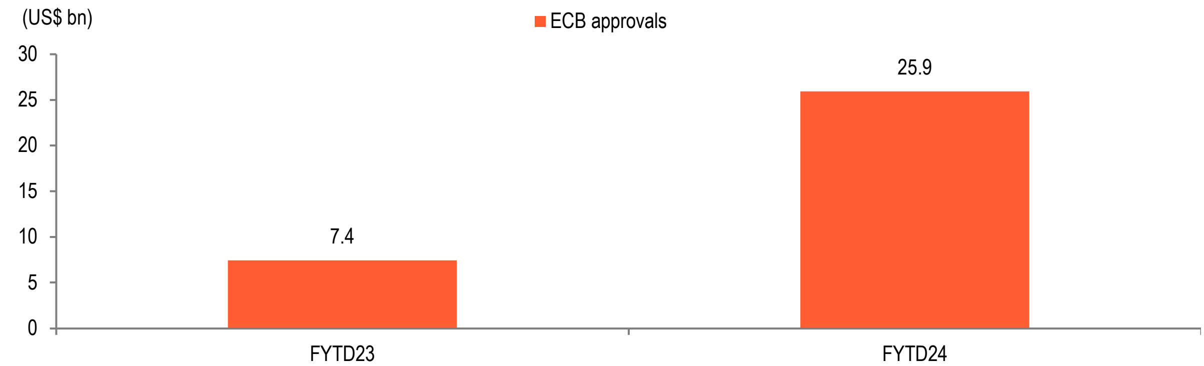
In terms of equity issuances in the primary market, capital raised through this route has risen for manufacturing firms. It increased by 33.1% in FYTD24 (till Sep'23) from 15.1% in the same period of last year. For core manufacturing firms such as metals, machinery the ratio has improved. The share of financial services has moderated slightly to 30.1% in FYTD24 from 36.2% in the same period of previous year.

4. Foreign funding:

Through ECB: Borrowing through the ECB route (both automatic and approval route) has been higher at US$ 25.9bn in FYTD24 compared to US$ 7.4bn in FYTD23.

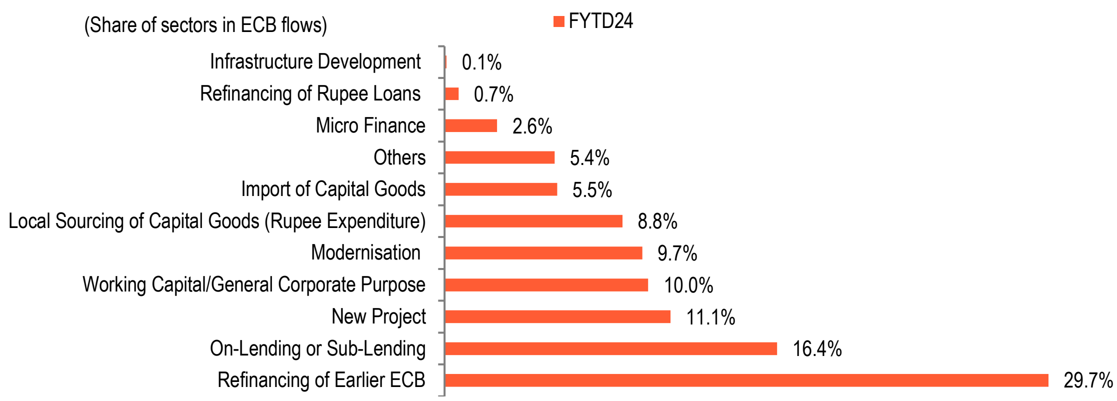
However, sector wise again the picture is fuzzy, with refinancing of earlier ECBs dominating the space followed by on-lending or sub-lending. However, import of capital goods and infrastructure development hold a minor share.

Figure 7: Borrowing through the ECB route has picked up



Source: RBI, Bank of Baroda Research Note: FYTD: Apr-Aug

Figure 8: Purpose wise, refinancing and on lending/ sub lending dominate the ECB space



Source: RBI, Bank of Baroda Research Note: FYTD: Apr-Aug'23

FDI inflow: Due to uncertain global macros on the back of tightening financial conditions, FDI inflows have dropped to US$ 14bn in FYTD24 compared to US$ 22bn seen in the same period of previous year.

Sector wise, service sector continues to dominate the FDI space as well, with lower share for core capital sectors.

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