11 May 2022

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Economist

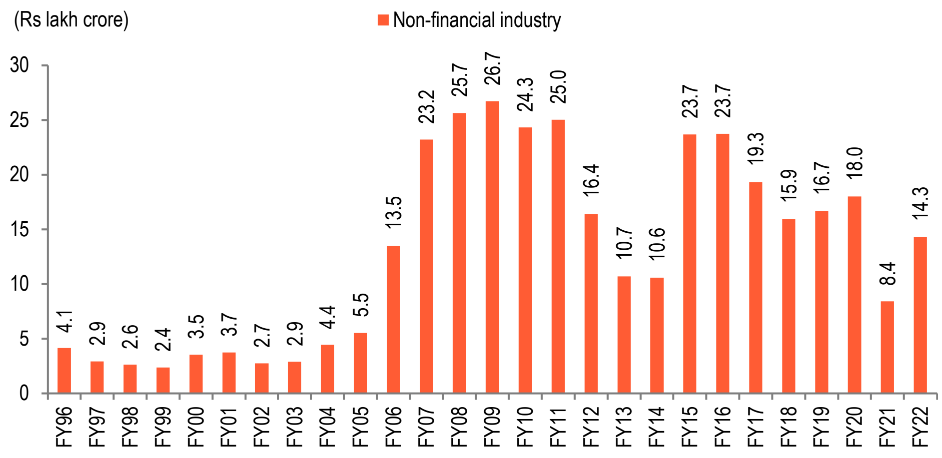
Have investment intentions turned around?

New project announcements in the manufacturing sector have improved significantly to Rs 6.2 lakh crore in FY22 versus Rs 3.2 lakh crore in FY20. This was led by improvement in machinery, chemicals and textiles. Services and construction sector still seem to be lagging from losses suffered during multiple waves of Covid-19 pandemic, with new project announcements running below their pre-pandemic levels.

Industry-wise investment analysis

New projects announced by non-financial companies, which includes manufacturing, mining, electricity, non-financial services, and construction & real estate, had jumped nearly 7x by FY09 to Rs 26.7 lakh crore from Rs 4.1 lakh crore in FY96. New projects announced since then have not been able to cross this peak, even though they had reached Rs 23.7 lakh crore by FY16. Between FY17-FY20, cost of new projects announced had averaged Rs 17.5 lakh crore. New project announcements had fallen to Rs 8.4 lakh crore in FY21 but recovered to Rs 14.3 lakh crore in FY22. However, this print is still below the pre-pandemic (FY20) level of Rs 18 lakh crore and also below FY15/16 levels.

Fig 1: Cost of new projects announced by non-financial companies



Source: CMIE, Bank of Baroda Research

Over the period, some notable deviations have been observed in the change in share of non-financial companies. In case of manufacturing, share of new projects announced had peaked at 54.4% in FY05, and since then has hovered at an average of 25.8% between FY06 to FY20. In FY20, new projects announced in the manufacturing sector had fallen to 17.8%, but rose sharply to 38.3% in FY21 and further to 43.5% in FY22. FY22 print is the highest since FY05. This could be the case as manufacturing sector was less hit by the subsequent waves of Covid-19, compared with services sector.

Within manufacturing, FY21 was a good a year (new projects announced increased) for all, except chemicals. Sharpest pick up in new projects announced (% share of non-financial companies) was witnessed in metals and metal products (18.4% versus 4% in FY20), followed by machinery (2.5% versus 0.9%), transport equipment (3.2% versus 1.7%) and consumer goods (1.8% versus 0.4%). However in FY22, results were mixed. While a significant increase in new projects announced was seen in machinery (8.3% versus 2.5% in FY21), chemicals (10.1% versus 8.7%) and textiles (1.3% versus 0.6%); a decline was visible in transport equipment (1.6% versus 3.2%) and consumer goods (0.8% versus 1.8%).

Table 1—Industry-wise breakdown of new projects announced in the manufacturing sector

(% share of non-financial)	FY18	FY19	FY20	FY21	FY22
Manufacturing	**21.7**	**28.3**	**17.8**	**38.3**	**43.5**
Food & agro-based products	1.4	1.1	0.6	1.6	1.5
Textiles	1.3	0.5	0.3	0.6	1.3
Chemicals & chemical products	7.8	14.8	8.7	8.7	10.1
Consumer goods	1.5	0.8	0.4	1.8	0.8
Construction materials	1.5	1.9	1.0	1.2	1.4
Metals & metal products	3.1	4.5	4.0	18.4	18.1
Machinery	1.3	1.7	0.9	2.5	8.3
Transport equipment	1.9	2.4	1.7	3.2	1.6
Miscellaneous manufacturing	1.8	0.5	0.1	0.3	0.4

Source: CMIE, Bank of Baroda Research

Separately, share of new projects announced (% of non-financial companies) in mining rose to 4.9% in FY21 from 1.9% in FY20. This was the highest since FY18 (6.7%). However, new projects announced in FY22 have fallen to 2.2% and remain far below FY13 level of 8.1%.

On the other hand, electricity's share in new projects announced saw a dip in in FY21 to 18.3% but has since recovered sharply to 31.8% in FY22. This is above the pre-pandemic level (FY20) of 22.7% and is the highest since FY11 (33%). The power sector has averaged around 22% in the last 5 years which is significant in the context of the present power crisis. Clearly investment has not been a barrier as there have been large allocations made here.

Construction sector had taken a backseat due to Covid-19 pandemic and is seen to be behind the curve in recovery. Share of new projects announced (% of non-financial companies) in the construction sector in FY22 has fallen to its lowest (2.6%) since FY00 (1.2%). It is also lower than 7.4% in FY21 and 17.5% in FY20 (pre-pandemic level).

Table 2—Sector-wise breakdown of new projects announced

(% share of non-financial)	FY18	FY19	FY20	FY21	FY22
Mining	6.7	2.5	1.9	4.9	2.2
Electricity	18.7	19.2	22.7	18.3	31.8
Construction & real estate	11.1	13.1	17.5	7.4	2.6

Source: CMIE, Bank of Baroda Research

Services activity (other than financial) has also not fully recovered from the pandemic as % share of new projects announced in FY22 dropped to 19.9% (lowest since FY96—16.7%) from 31.1% in FY21 and 40% in FY20. This share had peaked at 55.8% in FY17. Share of projects announced in IT has fallen to 2.5% in FY22, after recovering to 5.8% in FY21 from 2.3% in FY20. In other sectors such as transportation services share in FY22 (12.4%) remains lower than FY21 (12.6%) and also below the pre-pandemic level (FY20) of 32.2%. The decline here may be attributed to the airlines industry which had to backtrack on expansion plans post Covid-19 with uncertainty on the ability to operate at optimum capacity.

Share of new projects in hotels and restaurant briefly recovered in FY21 to 0.9% from 0.6% in FY20, but has since fallen to 0.5% in FY22. This is the lowest since FY17 (0.5%). This can be attributed to companies keeping their plans on hold given the lockdowns which affected business perceptibly. Only wholesale and retail trading sector has seen a modest increase in new projects announced in FY22, but remains much below FY12 and FY13 levels of 4.1% and 3.7% respectively.

Table 2—Breakdown of new projects announced in the services sector

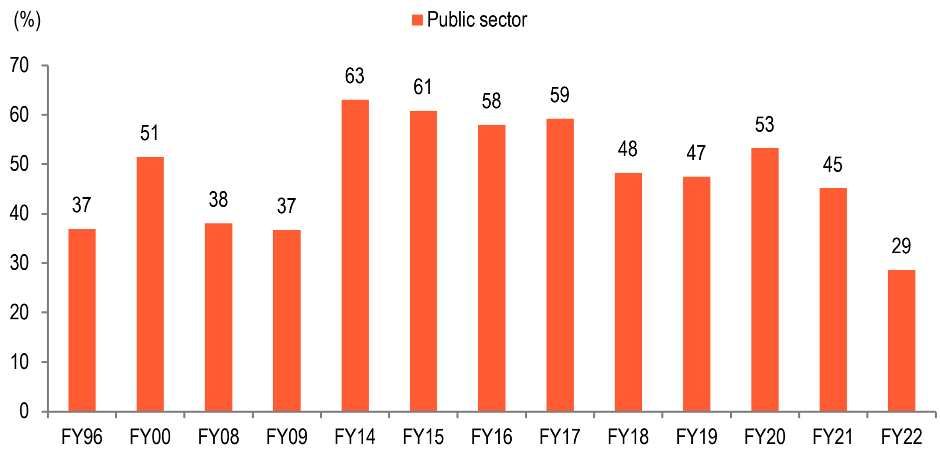
(% share of non-financial)	FY18	FY19	FY20	FY21	FY22
Services (other than financial)	**41.9**	**36.9**	**40.0**	**31.1**	**19.9**
Hotels & tourism	0.8	1.0	0.6	0.9	0.5
Wholesale & retail trading	0.9	2.4	0.1	0.3	0.6
Transport services	33.5	24.8	32.2	12.6	12.4
Communication services	0.3	0.2	0.1	0.0	0.0
Information technology	0.3	1.9	2.3	5.8	2.5
Miscellaneous services	6.1	6.6	4.8	11.5	3.8

Source: CMIE, Bank of Baroda Research

Public versus Private Investment

Looking at annual numbers from FY96 onwards, it is observed that on an average (till FY20) 51% of the new projects announced were driven by public sector investment. In FY02, new projects announced by public sector even peaked at 66.6%. The overall share of public investment then fell to 45% in FY21 and 29% in FY22. Over a 2-year horizon, this is far lower than the pre-pandemic (FY20) level of 53.2% or 63% in FY14.

Fig 2: Public sector's share in new projects announced

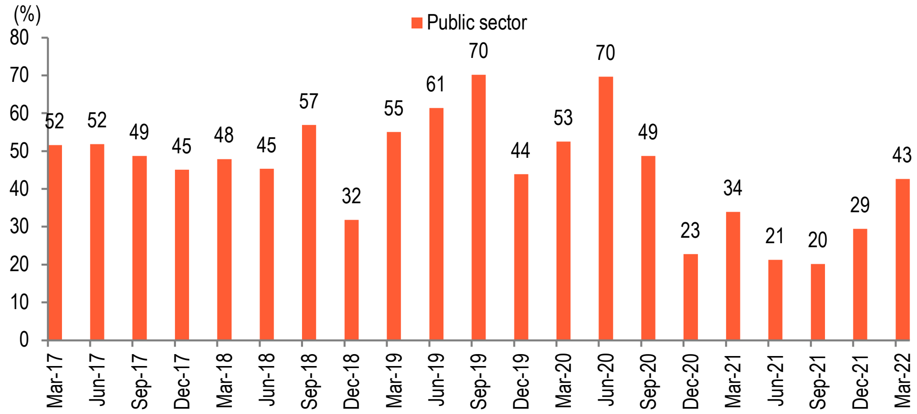


Source: CMIE, Bank of Baroda Research

On a quarterly basis too, the trend is similar. While March quarter sees a seasonal jump every year as companies try to achieve budgetary targets, Mar'22 print was still on the lower side compared over a 2-year period. In Mar'22 share of new projects announced by public sector was at 42.6% compared with 52.5% in Mar'20 or 62.5% in Mar'15.

In the first 3 quarters of FY22 too, average share of new projects announced by public sector was at 23.6%, compared with 47% in the first 3 quarters of FY21 and 58.5% in the first 3 quarters of FY20.

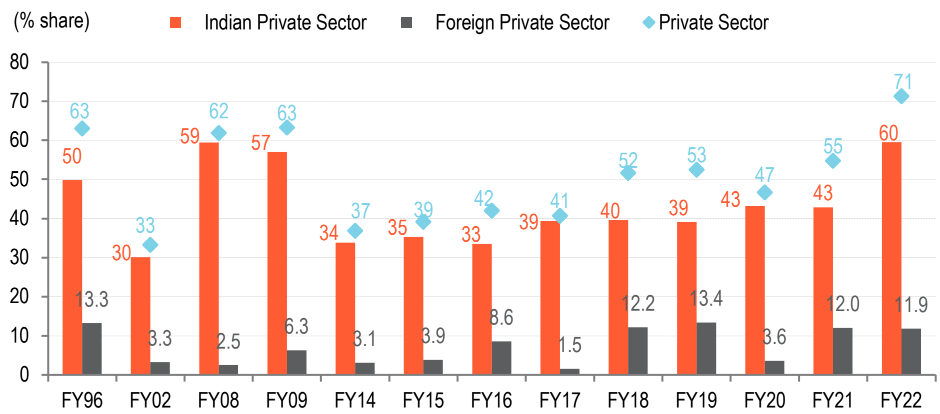
Fig 3: Quarterly public sector's share in new projects announced



Source: CMIE, Bank of Baroda Research

The gap left by public sector was covered by the private sector. In FY22, private sector accounted for 71.4% of new projects announced, highest on record since FY96. This was sharply up from 46.8% in FY20 and 54.9% in FY21. Both Indian and foreign private investment has seen an improvement. Share of Indian private companies in new projects announced has picked up from 43.2% in FY20 to 59 .5% in FY22. In case of foreign private sector companies, this has risen to 11.9% from 3.6%.

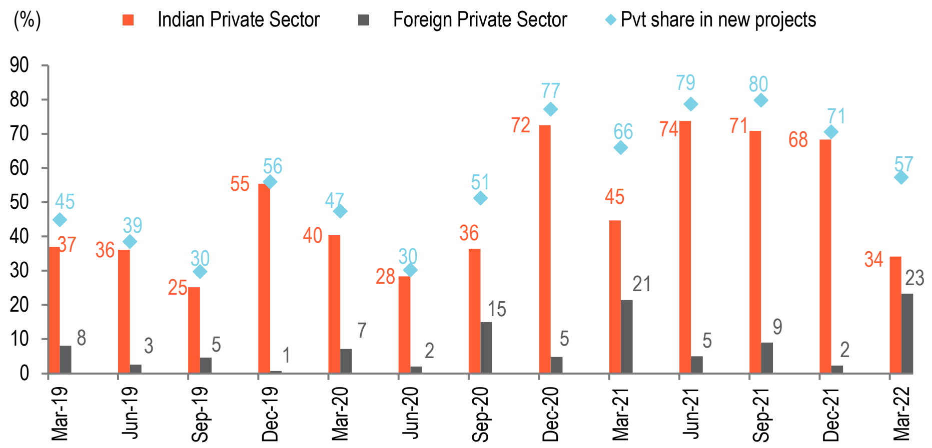
Fig 4: Breakdown of private sector's share in new projects announced



Source: CMIE, Bank of Baroda Research

On a quarterly basis, contrary to public spending, private spending has witnessed a seasonal dip in last quarter of a fiscal year. In FY22 too this was the case. In Mar'22, private sector's share in new projects announced eased to 57.4% from 70.6% in Dec'21, 79.9% in Sep'21 and 78.7% in Jun'21. However, compared over a 2 year horizon, Mar'22 print was still much higher than Mar'20 (47.5%).

Fig 5: Quarterly breakdown of private sector's share in new projects announced



Source: CMIE, Bank of Baroda Research

Trends in Gross Capital Formation

As per CSO estimates, nominal Gross Capital formation (GCF) fell by 12.3% in FY21 following 3.7% decline in FY20. Industry-wise, this decline was visible in falling share of manufacturing sector in overall investment. Share of manufacturing sectors' investment fell to 14.4% in FY21 from 16.4% in FY20 and was also considerably lower than 18.3% in FY16.

Share of construction sectors' investment (GCF) also fell in FY21 to 6.5% from 6.8% in FY20 and from the peak (2011-12 series) of 7.5% in FY19 and 7.4% in FY13.

On the other hand, share of investment in mining and quarrying and utilities (electricity, gas, water supply) picked up in FY21. While the share of mining and quarrying rose to 1.6% in FY21 from 1.3% in FY20, it was still considerably lower than 4% seen in FY14. Similarly, in case of utilities, the share has gone up to 7.5% in FY21 from 6.8% in FY20, but remains below the peak of 9.8% in FY16.

Within the services sector, majority of the sectors were impacted by the effects of Covid-19 pandemic. Share of trade & repair services in overall GCF fell to 5.8% in FY21 from 7.9% in FY20. This print is the second lowest in the current series (lowest was 5% in FY12). Share of hotels & restaurant has also declined to 0.7% from 1.6% in FY20. This is the lowest since FY14 (0.5%). Transport was too significantly affected with its share falling from 6.6% in FY20 to 3.9% in FY21. Within this, railways (1.1% in FY21—lowest since FY12), road (1.6% in FY21 versus 3.1% in FY20) and air (0.2% versus 1.1%) transport were most hit.

Share of storage remained unchanged at 0.2% in FY21. On the other hand, share of communication & services related to broadcasting jumped sharply from 5% to 5.5% in FY21. However it is still below the peak of 6% in FY19.

Table 3—Sector-wise share of GCF in nominal GDP

(% share)	FY18	FY19	FY20	FY21
Mining and quarrying	1.7	1.5	1.3	1.6
Manufacturing	17.1	16.4	16.4	14.4
Utilities	6.6	7.4	6.8	7.5
Construction	5.8	7.5	6.8	6.5
Trade, repair, Hotels and restaurants	11.1	10.2	9.4	6.6
Trade & repair services	10.1	9.1	7.9	5.8
Hotels & restaurants	1	1.2	1.6	0.7
Transport, Storage, Communication & Services related to broadcasting	12.4	12.7	11.8	9.6
Railways	1.7	1.5	1.6	1.1
Road transport	3.9	4.3	3.1	1.6
Water transport	0.1	0.1	0.0	0.1
Air transport	0.2	0.1	1.1	0.2
Services incidental to transport	0.7	0.6	0.7	0.8
Storage	0.1	0.1	0.2	0.2
Communication & Services related to broadcasting	5.8	6.0	5.0	5.5
Others (Agriculture, fin services, real estate, public admin, other services)	45.3	44.3	47.5	53.8

Source: CSO, Bank of Baroda Research

Another notable trend seen in FY21 was decline in share of fixed investments (GFCF) made by private non-financial corporations and household sector. In case of private non-financial corporations, share in GFCF fell to 33.5% in FY21 from 37% in FY20. This was the lowest since FY12 (32%) and also considerably down from the peak of 40.3% in FY16. Household sectors' share also moderated to 38.9% in FY21 from 39.4% in FY20 and remains lower than share of 40% or above seen between FY12-15.

On the other hand, both public financial and non-financial corporations tried to increase their investments. In case of public non-financial corporations, the increase was modest, from 10.3% in FY20 to 10.4% in FY21 and remains much lower than the peak of 13.1% in FY16. While in case of public financial corporations, share increased to 0.3% in FY21 from 0.2% in FY20. Private financial corporations saw a more robust rebound in FY21 to 1.1% from 0.8% in FY20. This is the highest in the current (2011-12) series.

In FY21, major contributor to overall investment was the general government whose share rose to 15.8% in FY21 from 12.3% in FY20. This too is the highest in the current series.

Table 4—Sector-wise share of GFCF in nominal GDP

(% share)	FY18	FY19	FY20	FY21
Public non-financial corporations	10.8	11.8	10.3	10.4
Private non-financial corporations	35.7	34.1	37.0	33.5
Public financial corporations	0.3	0.3	0.2	0.3
Private financial corporations	0.5	0.7	0.8	1.1
General government	12.7	12.0	12.3	15.8
Household sector	40.0	41.1	39.4	38.9

Source: CSO, Bank of Baroda Research

Concluding remarks

- In FY22 there has seen some shift in the investment pattern with the Private sector taking up a more definite role in terms of announcements. It does indicate that the government policies to crowd in private sector investment may begin showing results. However, the current war situation and uncertainty in the markets could prolong this process.

- There has been a revival in investment announcements in FY22 post the pandemic period. Within non-financial companies too, it has emerged that manufacturing sector is taking the lead so far, while services and construction sector lag behind.

- At the macro level, data till FY21 suggests that household sector continues to be a dominant player in the overall investment scenario, and their role may strengthen even further going forward, as government provides support to MSMEs. Private non-financial companies too continue to retain the position of a major player in FY21, followed by public non-financial corporations.

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