# Corporate Investment: Growth in 2009-10 and Prospects for 2010-11*

*The article captures capital expenditure intentions of the companies in private and joint business sector in order to assess broadly the likely short-term changes in business investment. The estimation of capital investment during a year is based on time phasing details of the investment intentions indicated by the companies while raising funds from banks/FIs, ECBs and domestic equity. Capital expenditure (capex) plans in 2009-10 were observed to be higher at Rs.3,44,633 crore. The capex plans so aggregated reflect continuation of upturn in the investment cycle which began in 2002-03. The cost of projects which were sanctioned institutional assistance during 2009-10, aggregated to Rs.5,56,011 crore. The investment rally was led primarily by high value projects envisaged in power, telecom and metal and metal products. More than 80 per cent of this total project cost has been envisaged in 86 high value projects having project cost of more than Rs.1,000 crore each. Spatial pattern of projects proposed during 2009-10 revealed that Orissa was the most favoured State that captured 13.4 per cent of total investment intentions followed by Maharashtra, Andhra Pradesh and Chhattisgarh. Going forward, accelerating capital goods production, favourable demand conditions, increasing levels of capacity utilisation in some sectors and rebound in earnings witnessed by corporate sector especially in the second half of 2009-10 are likely to support new investment decisions. Recent indications of an improvement in business sentiments on the back of improved outlook on demand conditions indicate that investments in*

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*2010-11 can be maintained around previous year's level given the continued thrust on infrastructure by the Government.*

## 1. Introduction

Capital investment for modernisation and expansion of productive capacity in any economy is vital to support economic development and to remain competitive in a business environment. Investment in fixed assets is an important determinant of an economy's long-run growth as its movements are generally highly synchronised with fluctuations in output and, hence, with the business cycles. The Indian economy since 2002-03 has been witnessing a long and strong investment cycle that is contributing significantly to increase in its economic growth.

This article captures capital expenditure intentions of the companies in private and joint business sector in order to assess broadly the likely short-term changes in business investment. For this, the investment intentions indicated by the companies while raising funds were analysed in order to capture the capital expenditure that would have been made during 2009-10. The analysis then dwells on the prospects that bring out the minimum value of the capital expenditure that would have to show up in the current year 2010-11 in order to match the investment level so assessed for 2009-10, other things remaining the same.

The rest of the article is organised as follows. Section 2 presents the methodology, scope, coverage and the limitations. Section 3 reviews the investment intentions for the year 2009-10. The capex intentions are presented separately for companies raising funds from banks/FIs, capital markets and ECBs. Analysis at several disaggregated levels such as size-class, industrial sector, location/state and purpose is also presented, but only for those projects that were covered by institutional assistance. Finally, Section 4 makes an assessment of envisaged investment for the year 2009-10 and presents investment prospects for the year 2010-11.

## 2. The Approach – Methodology, Coverage and Limitations

Though banks/FIs constitute the conventional source of funds for large-size capital expenditure, post-liberalisation, companies are also increasingly raising funds through several other avenues such as domestic capital markets, external commercial borrowings (ECBs)/foreign currency convertible bonds (FCCBs), private placement of debt, bonds/debentures and ADRs/GDRs.

The estimation of capital investment made in this study is largely based on projects in the private corporate sector that were financially assisted by banks/FIs[1]. The project reports, evaluated by the banks/FIs for the purpose of sanctioning financial assistance form the source for project-related information such as total envisaged capital expenditure, its phasing details together with information on industry, purpose and

[1] ICICI Bank, Infrastructure Development Finance Company (IDFC), IFCI, Life Insurance Corporation (LIC), Power Finance Corporation (PFC), Infrastructure Leasing & Financial Services Limited (IL&FS), EXIM Bank, all public sector banks (including IDBI Bank) and major private and foreign banks.

location of project. The study *inter alia* covers many under-construction projects.

Capital spending envisaged by the companies that raised ECBs (including FCCBs) or equity capital to partly finance their large capital outlays were also captured and aggregated. For this, the details as reported in Form 83 and ECB2 submitted to the Reserve Bank by companies raising funds through ECBs were analysed. The details contain information on, among others, the purpose of loan and the drawal schedule which was considered as indicative of time phasing of utilisation of funds raised through ECBs. Only those companies that indicated their primary purpose of raising ECBs as capital expenditure were picked for the study. Similarly, the information on envisaged capital spending and corresponding phasing details, as indicated in prospectus of the companies issuing equity capital in domestic capital market and available with SEBI was gathered to capture investment plans of such companies. Care was taken to include a project only once if the project is sourced from various sources to avoid the duplication.

However, the investment intentions of companies raising funds exclusively through private placements or debenture/bond issues or through ADRs/GDRs could not be captured due to inadequacy of information on the end-use and the spending pattern over the years[2].

[2] As per the available information, non-financial companies in private corporate sector raised funds amounting to Rs.90,529 crore in 2009-10 (Rs.35,103 crore in 2008-09) through private placement. However, neither the proportion nor the implementation schedule of these funds allocated for capital expenditure purposes are available. Similarly, the details of end-use and expenditure pattern over years of implementation are not available for the companies (excluding banks and financial institutions) that raised funds through ADRs/GDRs to the tune of Rs.15,124 crore in 2009-10 (Rs.4,788 crore in 2008-09).

The methodology followed is broadly in line with that proposed by Dr. C. Rangarajan in his article titled 'Forecasting Capital Expenditure in the Corporate Sector' published in the December 13, 1970 issue of the 'Economic and Political Weekly'. As suggested therein, the envisaged phasing details of total project cost as mentioned in the project proposals by companies should indicate the likely level of capital investment (capex) in the years of their implementation.

The validity of the assessment on corporate investment in the various years of implementation heavily rests upon the assumption that companies would adhere to the expenditure patterns outlined in the initial proposals. It may also be noted that estimates of corporate investment presented in this article are *ex ante* and differ in scope and methodology from the *ex post* estimates of corporate fixed investment available in National Accounts Statistics (NAS)[3].

## 3. Envisaged Investment in 2009-10

The present study captures investment intentions of 796 projects[4] sanctioned assistance by banks/FIs in 2009-10 amounting to Rs.5,56,011 crore. In addition, the study captures investment intentions of

[3] See also the technical note attached to 'Growth of Corporate Investment: An attempt at projection for 1999-2000' published in the Monsoon 1999 issue of the Reserve Bank of India Occasional Papers for details.

[4] Projects with total cost of at least Rs.10 crore. The projects based on Build, Own, Operate and Transfer (BOOT) were also covered in working out of likely capital spending of private corporate sector.

Rs.32,396 crore proposed by 255 companies contracting ECBs (inclusive of FCCBs) and Rs.1,768 crore intended by 19 companies issuing domestic equity capital during 2009-10. All together, the new investment intentions of 1,070 companies covered in 2009-10 aggregated to Rs.5,90,175 crore spread over 2006-07 to 2014-15.

### *3.1 Envisaged capital expenditure of companies sanctioned assistance by banks/FIs*

In this section, the analysis is confined to those projects that were sanctioned assistance by the banks/FIs. From the time-phasing details that reflect the investment intentions over the implementation period of the projects, the capital expenditure in a given year was estimated. In other words, the likely investment of private corporate sector in a given year may be broadly gauged by suitably aggregating expenditure intended in that year by the companies that were sanctioned assistance in various years. Accordingly, the envisaged spending of the corporates that were sanctioned assistance either in years prior to 2009-10 (but had planned spending in 2009-10) or in the year 2009-10 were combined to arrive at the total capital expenditure estimate in 2009-10.

To the extent possible, revisions/cancellations of the projects sanctioned assistance earlier and details thereof were also incorporated. In case where a company approached more than one institution for project funding, care was taken to include it only once. The data consolidated on these lines are presented in Table 1. When horizontally read, it shows the capital expenditure that was expected to take place in various years by the projects sanctioned assistance in a particular year. Vertically read, it gives the capital expenditure that would be incurred in a year by projects to which assistance had been given either in that year or in previous years.

It can be inferred from Table 1 that capital expenditure of Rs.1,47,971 crore would have been incurred during 2009-10 from the projects sanctioned prior to 2009-10. The fresh projects sanctioned during 2009-10 are found to have already spent Rs.11 crore in 2006-07, Rs.7,330 crore in 2007-08 and Rs.54,569 crore in 2008-09. These projects envisaged capital expenditure of another Rs.1,66,461 crore in 2009-10. As such, the total capital expenditure that could have been incurred during 2006-07, 2007-08, 2008-09 and 2009-10 aggregated to Rs.1,65,260 crore, Rs.2,16,518 crore, Rs.2,93,921 crore and Rs.3,14,432 crore, respectively (col. 9, 10, 11 and 12, Table 1). The information based on intentions, therefore, shows that the capital expenditure of the private corporate sector was likely to have risen by 7.0 per cent in 2009-10.

#### *3.1.1 Projects sanctioned during 2009-10*

The aggregate intentions of the 796 companies covered under institutional assistance during 2009-10 added to Rs.5,56,011 crore. This envisaged spending spread over a nine-year period spanning 2006-07 to 2014-15, was higher by Rs.2,22,972 crore when compared with Rs.3,33,039 crore envisaged from the 722 projects during 2008-09 (Table 2). The phasing details of the fresh sanctions in 2009-10 showed that 30.0 per cent of the total proposed spending amounting to Rs.1,66,461 crore was planned to be incurred

**Table 1: Phasing of Capital Expenditure of Projects Sanctioned Assistance by Commercial Banks/FIs**

(Rs. crore)

| Capital expenditure in the Year → Year of sanction ↓ | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| upto March 1999 | 34,689 | 16,657 | 6,879 | 4,056 | 3,597 | 1,754 | 555 | 336 | | | | |
| 1999-2000 | 11,971 | 11,640 | 7,107 | 5,603 | 695 | 468 | | | | | | |
| 2000-01 | 4,085 | 17,054 | 14,145 | 10,367 | 3,830 | 1,335 | 717 | | | | | |
| 2001-02 | 266 | 6,604 | 8,384 | 6,386 | 1,990 | 1,318 | 115 | 24 | | | | |
| 2002-03 | 30 | 96 | 680 | 5,763 | 5,429 | 1,708 | 574 | 573 | | | | |
| 2003-04 | 1,313 | 517 | 547 | 8,285 | 26,309 | 23,286 | 5,429 | 2,586 | 300 | | | |
| 2004-05 | | | | | 5,815 | 36,709 | 33,193 | 11,810 | 5,143 | 1,248 | 72 | |
| 2005-06 | | | | | | 9,858 | 41,279 | 43,903 | 23,707 | 8,501 | 2,263 | 1,787 |
| 2006-07 | | | | | | 2,172 | 14,857 | 94,588 | 94,155 | 49,613 | 14,813 | 3,208 |
| 2007-08 | | | | | | | 508 | 11,348 | 59,332 | 72,655 | 41,124 | 32,574 |
| 2008-09 | | | | | | | | 81 | 26,551 | 1,07,335 | 89,699 | 58,796 |
| 2009-10 | | | | | | | | 11 | 7,330 | 54,569 | 1,66,461 | 1,55,874 |
| Total upto 09-10 | 52,355 | 52,568 | 37,742 | 40,459 | 47,665 | 78,608 | 97,227 | 1,65,260 | 2,16,518 | 2,93,921 | 3,14,432 | 2,52,239 |
| Grand Total # | 52,435 | 52,668 | 37,742 | 40,459 | 47,665 | 78,608 | 97,227 | 1,65,260 | 2,16,518 | 2,93,921 | 3,14,432 | * |
| Percentage change | -21.9 | 0.4 | -28.3 | 7.2 | 17.8 | 64.9 | 23.7 | 70.0 | 31.0 | 35.7 | 7.0 | * |

* Per cent change for 2010-11 is not worked out taking into fact that the amount represents capex from intentions made upto 2009-10 and does not include capex from proposals that are likely to show up in 2010-11.

\# (a) Includes assistance provided by the IDBI under Technical Development Fund (TDF) and Bills Rediscounting Scheme (BRS).
(b) The estimates are *ex ante*, incorporating only the envisaged investment and thus are different from those actually realised/utilised.

in 2009-10 itself and another 28.0 per cent (Rs.1,55,874 crore) in the following year 2010-11. An amount of Rs.1,71,766 crore was proposed to be spent subsequently during 2011-2015. It may be noted that around 11.1 per cent of total project cost envisaged by these projects was already spent in previous three years (*i.e.* 2006-07 to 2008-09).

### *3.1.2 Industrial pattern of projects*

Technological innovations, market growth, organisational changes are some important factors in explaining the differences in the industry-wise expansion plans. The industry-wise pattern of institutionally assisted projects in 2009-10 is presented in Table 3. Investment intentions

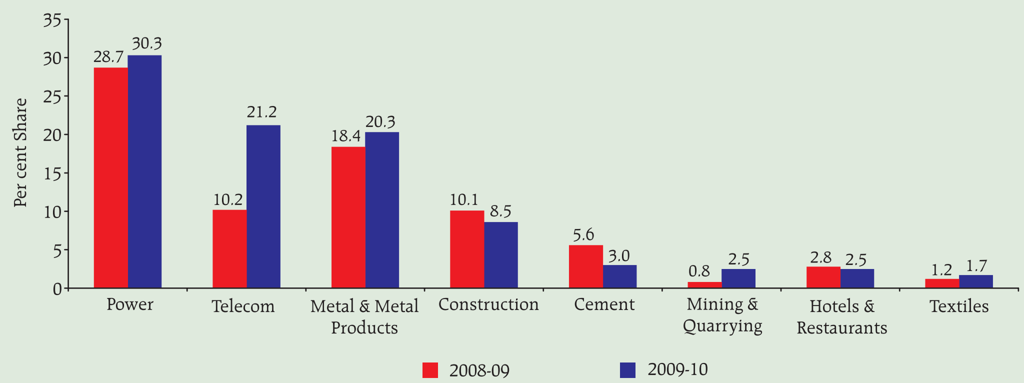
**Table 2: Phased Capital Expenditure of Projects Sanctioned in 2008-09 and 2009-10**

(Rs. crore)

| Capital expenditure in the Year → Capital expenditure of Projects ↓ | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| | **Number of projects: 722** | | | | | | | | | |
| **Sanctioned in 2008-09** | 81<br>– | 26,551<br>**(8.0)** | 1,07,335<br>**(32.2)** | 89,699<br>**(26.9)** | 58,796<br>**(17.7)** | 37,519<br>**(11.3)** | 8,427<br>**(2.5)** | 4,631<br>**(1.4)** | –<br>– | 3,33,039<br>**(100.0)** |
| | **Number of projects: 796** | | | | | | | | | |
| **Sanctioned in 2009-10** | 11<br>– | 7,330<br>**(1.3)** | 54,569<br>**(9.8)** | 1,66,461<br>**(30.0)** | 1,55,874<br>**(28.0)** | 1,07,224<br>**(19.3)** | 50,108<br>**(9.0)** | 11,050<br>**(2.0)** | 3,384<br>**(0.6)** | 5,56,011<br>**(100.0)** |

– Nil / Negligible.
**Note:** Figures in brackets denote percentage shares in the total.

Chart 1: Share of Envisaged Investment in Major Industries in Aggregate Cost of Projects




remained strong in infrastructure sector. At Rs.2,95,805 crore, the total investment in infrastructure group represented more than half of the cost of all projects. Investment in this group in recent years was largely led by high value projects in power and telecom. Particularly in each of the last three years, the share of expenditure pertaining to power projects in the total cost of all projects was around 30 per cent, reflecting the

**Table 3: Industry-wise Distribution of Projects and their Cost in 2008-09 and 2009-10**

| Industry | 2008-09 | | | 2009-10 | | |
|---|---|---|---|---|---|---|
| | Number of Projects | Project Cost | | Number of Projects | Project Cost | |
| | | Amount (Rs.crore) | Per cent Share | | Amount (Rs. crore) | Per cent Share |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. Infrastructure | 103 | 1,49,940 | 45.0 | 121 | 2,95,805 | 53.2 |
| i) Power | 59 | 95,699 | 28.7 | 90 | 1,68,326 | 30.3 |
| ii) Telecom | 6 | 33,985 | 10.2 | 10 | 1,17,689 | 21.2 |
| iii) Ports & Airports | 4 | 8,708 | 2.6 | 3 | 2,384 | 0.4 |
| iv) Roads, Storage & Water Management | 5 | 521 | 0.2 | 2 | 3,518 | 0.6 |
| v) SEZ, Industrial, Biotech and IT Parks | 29 | 11,028 | 3.3 | 16 | 3,888 | 0.7 |
| 2. Mining & Quarrying | 7 | 2,559 | 0.8 | 10 | 14,009 | 2.5 |
| 3. Food Products | 51 | 3,425 | 1.0 | 44 | 2,340 | 0.4 |
| 4. Sugar | 21 | 3,712 | 1.1 | 22 | 3,445 | 0.6 |
| 5. Textiles | 46 | 3,868 | 1.2 | 82 | 9,574 | 1.7 |
| 6. Paper & Paper Products | 25 | 4,628 | 1.4 | 7 | 452 | 0.1 |
| 7. Coke & Petroleum Products | 5 | 5,116 | 1.5 | 2 | 5,376 | 1.0 |
| 8. Chemicals & Petrochemicals | 27 | 5,212 | 1.5 | 28 | 3,399 | 0.6 |
| 9. Cement | 28 | 18,522 | 5.6 | 34 | 16,469 | 3.0 |
| 10. Metal & Metal Products | 100 | 61,359 | 18.4 | 146 | 1,12,732 | 20.3 |
| 11. Electrical Equipments | 17 | 4,008 | 1.2 | 16 | 794 | 0.1 |
| 12. Transport Equipments | 30 | 9,237 | 2.8 | 26 | 5,585 | 1.0 |
| 13. Construction | 30 | 33,556 | 10.1 | 23 | 47,636 | 8.5 |
| 14. Hotels & Restaurants | 59 | 9,339 | 2.8 | 66 | 13,770 | 2.5 |
| 15. Transport Services | 14 | 3,000 | 0.9 | 23 | 6,015 | 1.1 |
| 16. Entertainment | 19 | 3,656 | 1.1 | 12 | 4,325 | 0.8 |
| 17. Others* | 140 | 11,902 | 3.6 | 134 | 14,285 | 2.6 |
| **Total** | **722** | **3,33,039** | **100.0** | **796** | **5,56,011** | **100.0** |

* Comprise industries each with a share of less than 1 per cent in total cost of projects in 2008-09 and 2009-10.

predominance of investment intentions in power sector. At the same time, the investment intentions in telecom projects appeared to have re-emerged with their share rising to 10.2 per cent in 2008-09 and 21.2 per cent in 2009-10.

Corporates continued to intend making fresh investments in metals and metal products sector with aggregate share in total project expenditure increasing to 20.3 per cent followed by projects in construction (8.5 per cent) and cement (3.0 per cent). The share of each of the remaining industry groups was less than 3 per cent in the total project cost. The maximum number of projects sanctioned assistance in 2009-10 belonged to metal and metal products at 146 followed by infrastructure at 121 and textile at 82.

### *3.1.3 Size-wise pattern of projects*

The size-wise distribution of the projects sanctioned assistance during 2009-10 showed the dominance of high value projects (Table 4). The share of projects with envisaged investment of more than Rs.1000 crore at around 82.0 per cent in the current period was higher by 7.6 percentage points compared to previous year. Dimensionally, the aggregate project cost of 86 such projects at Rs.4,55,947 crore in 2009-10 was much higher compared to the aggregate project cost of 66 such projects at Rs.2,47,920 crore in 2008-09. In comparison to last year's scenario where 12 very large sized projects (envisaging expenditure of more than Rs.5,000 crore each) had formed around 40 per cent of total intentions, more than half of total planned investment was envisaged by 32 such big projects that were sanctioned assistance in 2009-10. Among these, six projects with more than Rs.10,000 crore envisaged investment were in power and telecom sector.

### *3.1.4 State-wise pattern of projects*

Location of high value projects tends to change the spatial pattern considerably from year to year. Location, in turn, depends on a host of other factors like the nature of the project, market size, growth prospects, availability of skilled labour, suppliers' adequate infrastructure, *etc.* Geographical distribution of the projects sanctioned assistance in 2009-10 was seen to be broad-based with growing investment prospects in

**Table 4: Size-wise Distribution of Projects and their Envisaged Cost in 2008-09 and 2009-10**

| Size of Projects (Rs. crore) | 2008-09 | | | 2009-10 | | |
|---|---|---|---|---|---|---|
| | Number of Projects | Project Cost | | Number of Projects | Project Cost | |
| | | Amount (Rs. crore) | Per cent Share | | Amount (Rs. crore) | Per cent Share |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Less than Rs.100 crore | 422 | 15,824 | 4.8 | 448 | 16,004 | 2.9 |
| Rs.100 crore to Rs.500 crore | 197 | 44,578 | 13.4 | 215 | 50,829 | 9.1 |
| Rs.500 crore to Rs.1,000 crore | 37 | 24,717 | 7.4 | 47 | 33,231 | 6.0 |
| Rs.1,000 crore to Rs.5,000 crore | 54 | 1,05,979 | 31.8 | 54 | 1,18,324 | 21.3 |
| Rs.5,000 crore to Rs.10,000 crore | 6 | 45,530 | 13.7 | 21 | 1,48,820 | 26.7 |
| Rs.10,000 crore & above | 6 | 96,411 | 28.9 | 11 | 1,88,803 | 34.0 |
| **Total** | **722** | **3,33,039** | **100.0** | **796** | **5,56,011** | **100.0** |

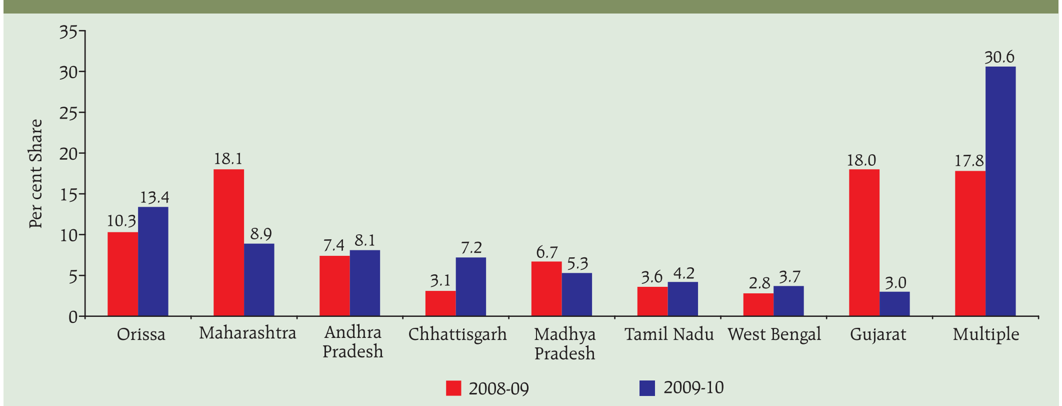
**Table 5: State-wise Distribution of Projects and their Envisaged Cost During 2008-09 and 2009-10**

| State | 2008-09 | | | 2009-10 | | |
|---|---|---|---|---|---|---|
| | Number of Projects | Project Cost | | Number of Projects | Project Cost | |
| | | Amount (Rs. crore) | Per cent Share | | Amount (Rs. crore) | Per cent Share |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Andhra Pradesh | 75 | 24,554 | 7.4 | 81 | 45,159 | 8.1 |
| Arunachal Pradesh | 1 | 321 | 0.1 | 3 | 13,396 | 2.4 |
| Chhattisgarh | 17 | 10,485 | 3.1 | 28 | 39,946 | 7.2 |
| Delhi | 13 | 2,029 | 0.6 | 13 | 7,141 | 1.3 |
| Gujarat | 77 | 59,887 | 18.0 | 72 | 16,572 | 3.0 |
| Haryana | 24 | 3,381 | 1.0 | 30 | 11,058 | 2.0 |
| Jharkhand | 9 | 5,250 | 1.6 | 11 | 11,173 | 2.0 |
| Karnataka | 44 | 7,553 | 2.3 | 46 | 8,354 | 1.5 |
| Madhya Pradesh | 20 | 22,272 | 6.7 | 27 | 29,542 | 5.3 |
| Maharashtra | 114 | 60,108 | 18.1 | 127 | 49,480 | 8.9 |
| Orissa | 17 | 34,287 | 10.3 | 31 | 74,757 | 13.4 |
| Punjab | 23 | 2,122 | 0.6 | 25 | 5,502 | 1.0 |
| Rajasthan | 22 | 1,822 | 0.5 | 26 | 12,041 | 2.2 |
| Tamil Nadu | 66 | 11,955 | 3.6 | 69 | 23,283 | 4.2 |
| Uttar Pradesh | 32 | 9,646 | 2.9 | 29 | 1,965 | 0.4 |
| West Bengal | 43 | 9,453 | 2.8 | 35 | 20,442 | 3.7 |
| Multiple | 56 | 59,442 | 17.8 | 52 | 1,70,400 | 30.6 |
| Others* | 69 | 8,472 | 2.5 | 91 | 15,800 | 2.8 |
| **Total** | **722** | **3,33,039** | **100.0** | **796** | **5,56,011** | **100.0** |

* Comprise states/ union territories, each with share of less than 1 per cent in aggregate cost of projects in 2008-09 and 2009-10.

Chhattisgarh, Orissa, Tamil Nadu, Arunachal Pradesh and Rajasthan as reflected in the increasing share of project expenditure intentions in these States in relation to last year (Table 5). On the other hand, Gujarat and Maharashtra which were the most preferred destinations for the projects last year, faced sharp deceleration in the new investment plans. Their share in total envisaged projects fell to less than 10 per cent. Conversely, Orissa was the most upbeat state in 2009-10 with regard to total proposed

**Chart 2: Share of Envisaged Investment in Major States in Aggregate Cost of Projects**



investment commitments reaching Rs.74,757 crore from 31 projects representing 13.4 per cent of total project costs.

More importantly, the share of multi-state projects increased sharply to 30.6 per cent in 2009-10 from 17.8 per cent in 2008-09. These multi-state projects largely cover telecom sector either directly or indirectly through telecom infrastructure.

### *3.1.5 Purpose-wise pattern of projects*

As revealed in Table 6, the purpose of the investment also differs. While close to 66 per cent of aggregate investment intentions were into new projects, 250 proposed investments were for the purpose of expansion and modernisation which accounted for Rs.1,44,218 crore. In terms of number also, 65 per cent of total projects were new projects.

## *3.2 Envisaged capital expenditure of companies raising funds from ECBs (including FCCBs)*

Based on the information on ECBs as available in Form 83 and ECB2 Returns submitted to the Reserve Bank, amount of loan contracted for capex purposes and its corresponding drawal schedule were taken to broadly represent company's total investment intentions and capital expenditure over the phasing schedule, respectively. The aggregate capital expenditure in any given year was then derived as total of drawal amounts in that given year from the loan amounts contracted in various years up to and including the reference year. In cases, where the company approached banks/FIs for assistance and also contracted ECBs to part-finance the same project during the reference period, care was taken to avoid double-counting of the same project sourced from both the sources.

Following depressed international capital market conditions, flows from ECB dropped in 2008-09 in contrast to steady increases in the preceding four years. However, 2009-10 witnessed some recovery in ECBs as global financial markets gradually stabilised. The study culled out investment intentions of another 255 private sector companies which were not covered under institutionally-assisted projects. These companies were found to have raised loans worth Rs.32,396 crore in 2009-10 for the purpose of capex.

Based on available information on drawals schedule, capital expenditure which would have been incurred in 2009-10 by the

**Table 6: Purpose-wise Distribution of Projects and their Envisaged Cost during 2008-09 and 2009-10**

| Purpose | 2008-09 | | | 2009-10 | | |
|---|---|---|---|---|---|---|
| | Number of Projects | Project Cost | | Number of Projects | Project Cost | |
| | | Amount (Rs. crore) | Per cent Share | | Amount (Rs. crore) | Per cent Share |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| New | 456 | 2,24,553 | 67.4 | 515 | 3,65,920 | 65.8 |
| Expansion & Modernisation | 243 | 1,04,906 | 31.5 | 250 | 1,44,218 | 26.0 |
| Diversification | 13 | 2,221 | 0.7 | 11 | 5,144 | 0.9 |
| Others | 10 | 1,359 | 0.4 | 20 | 40,729 | 7.3 |
| **Total** | **722** | **3,33,039** | **100.0** | **796** | **5,56,011** | **100.0** |

companies contracting ECBs during any year between 2004-05 and 2009-10 worked out to be Rs.28,804 crore. Of which, almost 94 per cent (Rs.26,940 crore) was intended to be made by the companies which contracted loans during 2008-09 and 2009-10. The data also revealed that envisaged capital expenditure in 2010-11 of the companies that contracted ECBs upto 2009-10 stood at Rs.14,412 crore.

### *3.3 Envisaged capital expenditure of companies raising funds from IPOs/FPOs/Rights Issues*

During 2009-10, 57 non-government non-financial private limited companies raised Rs.19,214 crore through public/rights issues. Excluding 38 companies that either did not have capex plans or raised funds from banks/FIs or contracted ECBs for part financing the total capex, the total issue size added up to Rs.2,371 crore for remaining 19 companies with reported capex plans aggregating to Rs.1,768 crore spread over five years. These companies intended to spend Rs.840 crore on capex in 2009-10 and Rs.713 crore in 2010-11. Additionally, capex spending of Rs.557 crore and Rs.5 crore in 2009-10 and 2010-11, respectively, was envisaged by the companies which came out with rights/public issues prior to 2009-10. On combining, the total investment intentions of such companies amounted to Rs.1,397 crore in 2009-10 and Rs.718 crore in 2010-11.

## 4. Assessment and Prospects

### *4.1 Assessment of 2009-10*

Emerging from the global crisis that impacted the financial activity in several parts of the world including India which experienced moderation in GDP growth to 6.7 per cent in 2008-09, the global and domestic market activity recovered in 2009-10 with Indian GDP growing by 7.4 per cent. Despite the uncertain economic outlook occurring largely in second half of 2008-09, the corporates appeared to have continued with their optimistic investment plans on the basis of the robust demand conditions of earlier years. Though there were a number of projects that reported delay or scaling back, the information with banks on projects coming up for assistance, suggested the rise in capital expenditure by 35.7 per cent in 2008-09. The intentions were seemed to have been largely revised in next year as reflected in a lower 7 per cent rise in envisaged capital investment in 2009-10 despite rebound in key economic parameters.

It may be noted, however, that investment intentions in the private corporate sector remained higher than a year ago, reflecting a continued focus on enhancing productivity and competitiveness. In addition, there were other visible signs of receding concerns over the economic outlook during 2009-10. The declining spreads on corporate bonds over the government bond yield suggested moderation in pressure on corporate borrowings. Industrial growth expanded substantially led by a strong growth in capital goods, particularly machinery and equipment. The profits of private corporate sector being pro-cyclical showed expansion. Business confidence climbed back with companies becoming more optimistic about the strengthening of aggregate demand conditions. An improving global economy pushed the exports higher. A subdued bank credit growth during a large part of 2009-10 was to some extent offset by higher funds mobilisation through IPOs, private placements and mutual funds.

Expansion in industrial production, exports and corporate profits, particularly in the second half of 2009-10, reflected broad-based recovery in demand conditions. With strength in the credit conditions and business confidence, the companies' investment intentions surged further. Led by rise in large-sized projects, the total envisaged cost of projects sanctioned assistance by banks/FIs in 2009-10 at Rs.5,56,011 crore far surpassed the previous high of Rs.3,33,039 crore in 2008-09. The information on phasing details of such projects revealed that the envisaged capital expenditure in 2009-10 from projects sanctioned in 2009-10 and prior years amounted to Rs.3,14,432 crore. In addition to the investment intentions of companies approaching banks/FIs, the study also captured capital expenditure plans of companies that raised funds through ECBs or domestic equity issuances. The envisaged capital expenditure of such companies in 2009-10 amounted to Rs.28,804 crore and Rs.1,397 crore, respectively.

Avoiding duplication, the sum of capital expenditure that might have been incurred in 2009-10, of all companies covered in the study, worked out to be substantial at Rs.3,44,633 crore of which Rs.1,82,134 crore was envisaged by 1,070 new projects added in the database in 2009-10 itself.

### *4.2 Prospects for 2010-11*

Outlook for demand continues to be a significant factor driving investment intentions. The Reserve Bank of India, in its first quarter review of Monetary Policy placed real GDP growth in 2010-11 at 8.5 per cent with an upward bias. With industrial output exhibiting strong acceleration, particularly in recent months, there has been a significant revival in credit demand. With inventory cycle turning and order books picking up, the business sentiments have also improved.

With signs of improvement in macroeconomic climate, the concerns over the availability of working capital and external project financing do not appear to be constraining factors for corporates' investment. At the same time, rebound in profits on the back of return of pricing power and the buoyant capital markets are expected to support corporates' capacity to invest. With prospects of accelerating pace in growth of domestic and global economy, coupled with indications of improving capacity utilisation against the backdrop of expansion in order books, the climate for investment appears to be conducive. Continued thrust on PPP projects is another positive for stimulating investment, especially in power, telecom and construction projects given the growing demand in these sectors.

The minimum aggregate capital expenditure in 2010-11 that may match with the level of capex intentions in 2009-10 would be the summation of pipeline investment intentions of the projects, which were intended prior to 2010-11 and the new capital spending proposals expected to come up in 2010-11 itself.

For the first part, capital expenditure planned to be spent in 2010-11 aggregated to Rs.2,67,369 crore. If the companies do not defer the investment decisions and adhere to their investment plans, this pipeline investment is expected to help maintain the momentum of investment in 2010-11.

For the second part, if the aggregate capex in 2010-11 were to match the capex envisaged in 2009-10 (Rs.3,44,633 crore), the minimum capital expenditure of around Rs.77,264 crore needs to show up from the new investment intentions of 2010-11 by the private corporate sector. Though short-term economic prospects appear somewhat subdued largely as a result of the impact on the real economy of the global financial and debt crisis and of the rising inflation expectations, taking into account the positive effect of the improved outlook on domestic demand, increasing capacity utilisation, rebound in profits and comfortable credit conditions on investment decisions, corporates are expected to come up with at least this much of capex to meet the growing level of demand. In other words, it is quite likely that capital expenditure investments in the current year would surpass last year's level.