*Corporate Investment: Growth in 2011-12 and Prospects for 2012-13**

The article captures capital expenditure (investment in fixed assets) intentions of the companies in private and joint business sector in order to assess broadly the short-term changes in business sentiment. The estimation of capital investment likely to be incurred during the current financial year is based on time phasing details of the investment intentions indicated by the companies while raising funds from banks/FIs or through External Commercial Borrowings (ECB) and domestic equity issues. The cost of projects for which institutional assistance was sanctioned during 2011-12, aggregated to `2,120 billion which is less than `3,926 billion envisaged in 2010-11[1]*. The investment plan was led by high value projects (projects with cost more than `10 billion each) envisaged in power, metal & metal products and textiles industries. Spatial pattern of projects proposed during 2011-12 revealed that Maharashtra was the most preferred State that captured 18.3 per cent of total investment intentions followed by Karnataka and Uttar Pradesh.*

Based on the phasing details of investment intentions made during various years, the sum of total capital expenditure, including through ECB and domestic equity issuance, after avoiding duplication, that might have been incurred in 2011-12 worked out to be `3,500 billion. Further, the capital expenditure already planned in 2012-13 aggregated to `2,073 billion. Thus, for matching the level of aggregate capex of 2011-12, a minimum capital expenditure of around `1,427 billion would need to come from new investment intentions of the private corporate sector in 2012-13, which going by the assessment on date, does not appear to be feasible.

1. Introduction

A capital expenditure (or capex) is incurred when a business entity either buys fixed assets or adds value to an existing fixed asset with a useful life that extends beyond an accounting year. Capital expenditure, be it for modernisation and expansion of productive capacity of an existing business or for the development of a new business, is vital for every corporate entity. It is also evident that a nation's economic growth is strongly correlated with rate of investment, especially in emerging economies. The Indian economy has been witnessing a long and strong investment cycle over last few years, which seems to have weakened in 2011-12.

This article captures investment (*i.e.*, capital expenditure) intentions of the companies in private and joint business sector in order to assess the likely short-term changes in business sentiment. The phasing details indicated by the companies while raising funds were analysed to capture the capital expenditure that would have been made during 2011-12. Capital expenditure envisaged from pipeline projects are also estimated for 2012-13. Further, the analysis dwells on the prospect of attaining the level of capital expenditure for 2011-12 in 2012-13, based on the emerging scenario.

The article is organised in five sections. Section 2 presents the methodology, scope, coverage and the limitations. Section 3 outlines nature of new projects planned by the corporates in 2011-12. It covers all projects where funds have been raised through banks/FIs/capital markets/external commercial borrowings (ECBs). However analysis at disaggregated levels according to size-class, industrial sector, location/State and purpose has been made only for those projects that were covered by institutional assistance. Section 4 estimates capital expenditure of corporate sector likely to be incurred during 2011-12. Based on the

* Prepared in the Corporate Studies Division of the Department of Statistics and Information Management. The previous study titled 'Corporate Investment: Growth in 2009-10 and Prospects for 2010-11' was published in the September 2011 issue of the RBI Bulletin.

[1] According to the previous publication in September 2011issue of the Bulletin, the cost of projects for which institutional assistance was sanctioned during 2010-11 was at `4,603 billion. However, on account of cancellation of 86 projects during the current year, the cost of projects in 2010-11 has been revised to `3,926 billion.

current economic scenario, an outlook for corporate investment during 2012-13 is presented in section 5.

2. The Approach – Methodology, Coverage and Limitations

Though banks/FIs constitute the conventional source of raising funds for large-sized capital expenditure, 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 American Depository Receipts (ADRs)/Global Depository Receipts (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[2]. The data used in this study is obtained from banks/FIs which prepare project reports before sanctioning financial assistance to companies. The data collected includes various components such as total envisaged capital expenditure, its phasing details together with information on industry, purpose and 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 in this study. The details as reported in Form 83 to RBI by companies raising funds through ECBs were analysed for this purpose. The details captured among others are purpose of the loan and the drawal schedule, which was considered as indicative of time phasing of utilisation of the funds raised through ECBs. Only those companies that indicated their primary purpose of raising ECBs as capital expenditure were selected 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 duplication.

However, the investment intentions of companies raising funds *exclusively* through private placements or debenture/bond issues or through ADR/GDRs could not be captured due to inadequacy of information on the end use and the spending pattern over the years[3]. 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 expenditure (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)[4].

3. New Projects Planned during 2011-12

The present study captures investment intentions of 668 projects of worth `2,120 billion, each with project cost of `100 million and above, sanctioned assistance by banks/FIs in 2011-12. In addition, it captures investment intentions of `379 billion proposed by 438 companies by financing through ECBs (inclusive of

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

[3] As per the available information, non-financial companies in private corporate sector raised funds amounting to `232 billion in 2011-12 (`495 billion in 2010-11) 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 `27 billion in 2011-12 (`92 billion in 2010-11).

[4] 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.

Table 1: Phased Capital Expenditure of Projects Sanctioned in 2010-11 and 2011-12

(` billion)

Items	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	Total
	1	2	3	4	5	6	7	8	9	10
Sanctioned in 2010-11	**Number of Projects :710**									
	3 **(0.1)**	320 **(8.1)**	1,101 **(28.1)**	1,095 **(27.9)**	823 **(21.0)**	489 **(12.5)**	85 **(2.2)**	1 **-**	9 **(0.2)**	3,926 **(100.0)**
Sanctioned in 2011-12	**Number of Projects : 668**									
	- **-**	39 **(1.8)**	254 **(12.0)**	746 **(35.2)**	638 **(30.1)**	319 **(15.1)**	95 **(4.5)**	29 **(1.4)**	- **-**	2,120 **(100.0)**

- Nil/Negligible

Note: Figures in the brackets denote per centage share in the total.

FCCBs) and `10 billion intended by 21 companies by issuing domestic equity during 2011-12. All together, the new investment intentions of 1,127 companies covered in 2011-12 aggregated to `2,509 billion.

3.1. Projects Funded/Assisted by Banks/ Financial Institutions

The aggregate investment intentions of the 668 projects, which were sanctioned assistance by Banks/ FIs during 2011-12 amounted to `2,120 billion. This envisaged expenditure was lower than `3,926 billion envisaged from 710 projects during 2010-11[5].

The phasing details of fresh sanctions in 2011-12 showed that a share of 35.2 per cent of the total proposed spending of worth `746 billion was planned to be incurred in 2011-12, and another 30.1 per cent (`638 billion) in 2012-13. An amount of `443 billion was proposed to be spent during 2013-17. It may be noted that around 13.8 per cent of total project cost envisaged by these projects was already spent in previous years (*i.e.*, 2009-10 and 2010-11) (Table-1).

3.1.1 Industrial Pattern of Projects

The total investment at `1,029 billion, in infrastructure sector represented 48.6 per cent of the cost of all projects, reflecting prominence of this sector. Investment in this sector in recent years was largely led by high value projects in power. The share of power projects in the total cost of all projects for which assistance was sanctioned in 2011-12 was at 44 per cent, lower than 46.9 per cent in 2010-11. The share of telecom sector was negligible in 2011-12 as against 5.5 per cent in 2010-11. The share of investment intentions in metal & metal products was less than half at 14.9 per cent of the total project cost in 2011-12 as against 20.4 per cent in 2010-11. Industries such as construction, cement, hotel & restaurants and electrical equipments witnessed a decline in new investment, whereas, textiles, chemicals & pesticide, and transport services received higher investment in 2011-12 as compared with 2010-11. The maximum number of projects for which assistance was sanctioned in 2011-12 relates to infrastructure sector at 118, followed by textiles at 97 and metal and metal products at 74 (Table-2 and Chart-1).

3.1.2 Size-wise Pattern of Projects

The size-wise distribution of the projects for which assistance was sanctioned during 2011-12 revealed reduced dominance of high value projects (Table-3). The projects with envisaged investment of `10 billion and above, each, numbered only 40 but accounted for 61.3 per cent of total project cost. The share of very high value projects (with cost more than `50 billion each), declined from 47.8 per cent in 2010-11 to 32.8 per cent in 2011-12.

3.1.3 State-wise Pattern of Projects

Spatial distribution of projects tends to change considerably from year to year. Location of projects depends on many factors such as the nature of the project, market size, growth prospects, availability of skilled labour, suppliers, adequate infrastructure, *etc.*

[5] Envisaged expenditure on project sanctioned in 2010-11 was revised on the basis of cancellation/modification of projects announced earlier.

Table 2: Industry-wise Distribution of Institutionally Assisted Projects: 2010-11 and 2011-12

Industry	2010-11			2011-12		
	Number of Projects	Project Cost		Number of Projects	Project Cost	
		Amount (` billion)	Per cent Share		Amount (` billion)	Per cent Share
	1	2	3	4	5	6
1. Infrastructure	124	2,152	54.8	118	1,029	48.6
i) Power	107	1,840	46.9	92	933	44.0
ii) Telecom	2	214	5.5	1	–	–
iii) Ports & Airports	2	57	1.5	1	25	1.2
iv) Storage & Water Management	1	1	-	13	10	0.5
v) SEZ, Industrial, Biotech and IT Parks	12	40	1.0	11	61	2.9
2. Food Products	39	26	0.7	41	29	1.4
3. Sugar	22	32	0.8	12	21	1.0
4. Textiles	78	113	2.9	97	148	7.0
5. Petroleum Products	3	97	2.5	4	24	1.1
6. Chemicals & Pesticides	27	48	1.2	19	78	3.7
7. Glass & Pottery	6	16	0.4	10	25	1.2
8. Cement	15	96	2.4	11	45	2.1
9. Metal & Metal Products	115	800	20.4	74	315	14.9
10. Electrical Equipment	25	75	1.9	13	8	0.4
11. Transport Equipments and Parts	28	30	0.8	27	50	2.3
12. Construction	18	125	3.2	22	33	1.5
13. Hotel & Restaurants	66	147	3.7	53	96	4.5
14. Transport services	14	24	0.6	21	72	3.4
15. Entertainment	5	29	0.7	10	26	1.2
16. Others*	125	117	3.0	136	121	5.7
Total	**710**	**3,926**	**100.0**	**668**	**2,120**	**100.0**

* Comprise industries each with a share of less than 1 per cent in total cost of projects in 2010-11 and 2011-12.

Maharashtra, Karnataka, Uttar Pradesh, Rajasthan and Bihar were preferred destinations for industrial projects in 2011-12 as reflected in the increasing share of project expenditure in these States in comparison

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

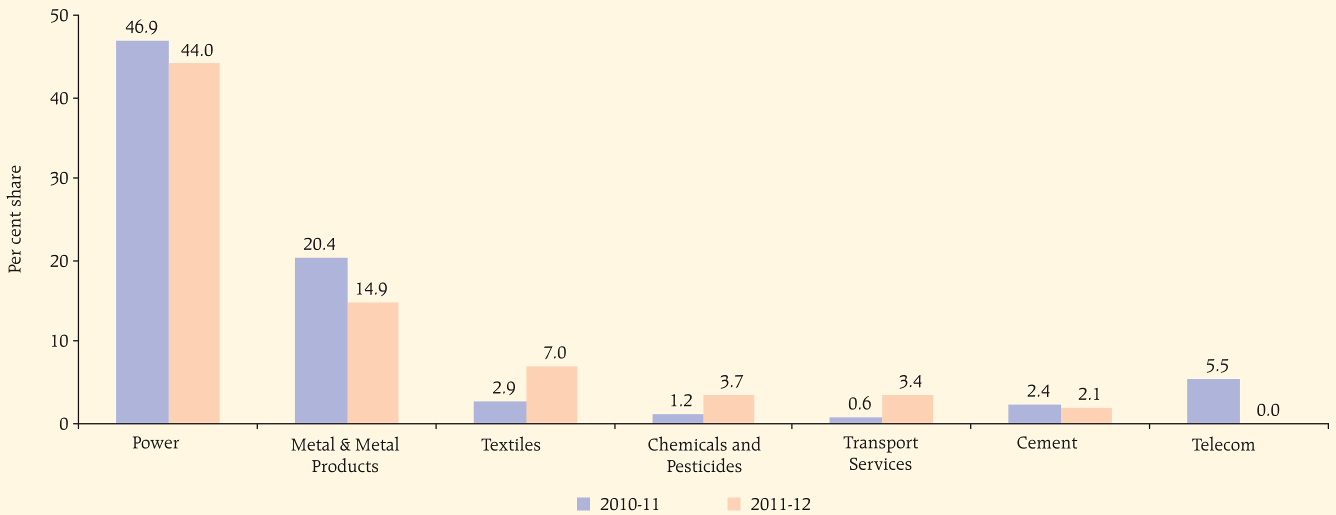


Table 3: Size-wise Distribution of Institutionally Assisted Projects and their Envisaged Cost in 2010-11 and 2011-12

Size of Projects	2010-11			2011-12		
	Number of Projects	Project Cost		Number of Projects	Project Cost	
		Amount (` billion)	Per cent Share		Amount (` billion)	Per cent Share
	1	2	3	4	5	6
Less than `1 billion	413	167	4.3	423	160	7.5
`1 billion to `5 billion	178	397	10.1	165	372	17.6
`5 billion to `10 billion	45	341	8.7	40	289	13.6
`10 billion to `50 billion	53	1,144	29.1	30	604	28.5
`50 billion & above	21	1,877	47.8	10	695	32.8
Total	**710**	**3,926**	**100.0**	**668**	**2,120**	**100.0**

with previous year. On the other hand, Andhra Pradesh, Chhattisgarh (which attracted the highest investment last year), and Odisha witnessed reduction in their share in the total project cost in 2011-12 as compared with the previous year (Table-4 and Chart-2).

3.1.4 Purpose-wise Pattern of Projects

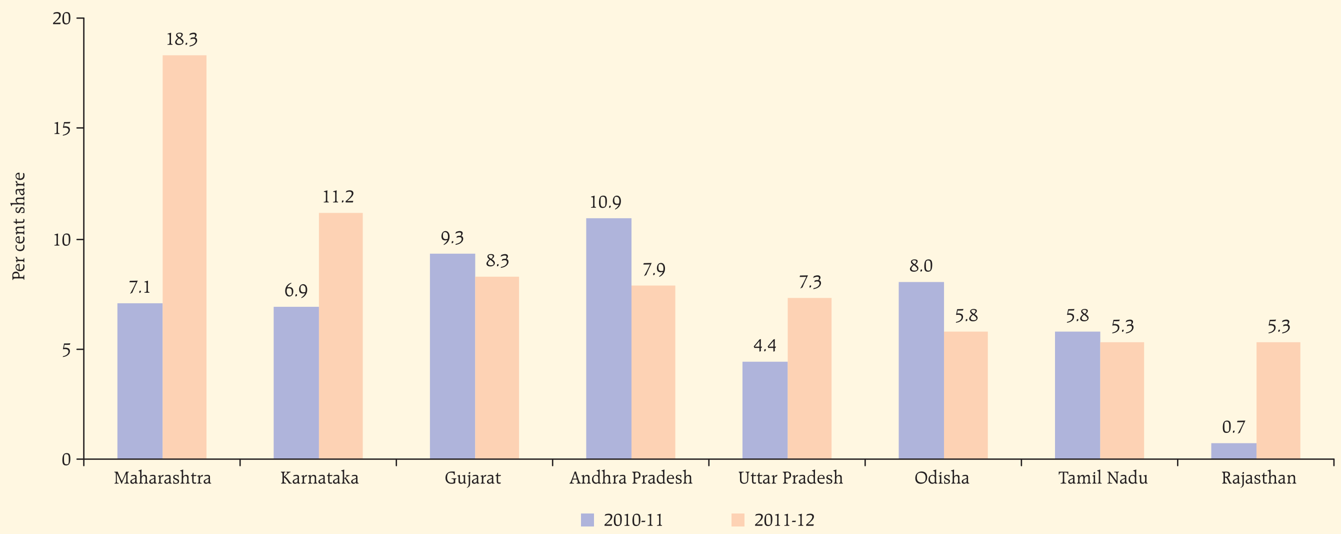
The purpose of projects has been classified into four groups as new, expansion/modernisation, diversification and others. While 72.9 per cent of aggregate investment intentions were into new

Table 4: State-wise Distribution of Institutionally Assisted Projects and their Envisaged Cost During 2010-11 and 2011-12

State	2010-11			2011-12		
	Number of Projects	Project Cost		Number of Projects	Project Cost	
		Amount (` billion)	Per cent Share		Amount (` billion)	Per cent Share
	1	2	3	4	5	6
Maharashtra	71	279	7.1	91	389	18.3
Karnataka	40	271	6.9	43	237	11.2
Gujarat	67	367	9.3	77	177	8.3
Andhra Pradesh	65	428	10.9	57	168	7.9
Uttar Pradesh	32	172	4.4	43	156	7.3
Odisha	27	314	8.0	16	123	5.8
Tamil Nadu	94	229	5.8	61	113	5.3
Rajasthan	28	29	0.7	51	111	5.3
Madhya Pradesh	22	195	5.0	16	107	5.0
West Bengal	29	124	3.1	19	93	4.4
Chhattisgarh	31	456	11.6	12	79	3.7
Bihar	3	3	0.1	3	76	3.6
Punjab	39	137	3.5	39	37	1.7
Uttarakhand	11	12	0.3	8	30	1.4
Haryana	35	31	0.8	45	26	1.2
Jharkhand	10	136	3.5	13	25	1.2
Delhi	10	30	0.8	9	24	1.1
Multiple #	49	618	15.8	34	85	4.0
Others*	47	95	2.4	31	63	3.0
Total	**710**	**3,926**	**100.0**	**668**	**2,120**	**100.0**

Comprise projects spread over several States.
* Comprise States/Union Territories, each with share of less than 1 per cent in aggregate cost of projects in 2010-11 and 2011-12.

Chart 2: Share of Major States in Aggregate Cost of Projects



projects, 21.4 per cent of proposed investments were for the purpose of expansion/modernisation. The share of new projects in total cost of projects increased during 2011-12 as compared with the last year (Table-5).

3.2 Projects Funded through ECB (including FCCBs)

Based on the information on ECBs as available in Form 83 and ECB2 returns submitted by corporates to the Reserve Bank of India, amount of loan contracted for capex purposes and its corresponding drawal schedule were obtained, which was considered as borrower's investment intention and phased capital expenditure plans, 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 contracted ECBs to part finance the same project during the reference period, care was taken to avoid double counting of the same project.

The study culled out investment intentions of 438 private sector companies, which were not covered under institutionally assisted projects. These companies were found to have mobilised loans amounting to `379 billion in 2011-12 as compared with `316 billion raised by 302 companies in the previous year (Table-7).

3.3 Projects Funded through IPOs/FPOs/Right Issues

During 2011-12, 51 non-government companies raised `33 billion through public/rights issues to fund

Table 5: Purpose-wise Distribution of Institutionally Assisted Projects and their Envisaged Cost During 2010-11 and 2011-12

Purpose	2010-11			2011-12		
	No. of Projects	Project cost		No. of Projects	Project cost	
		Amount (` Billion)	Per cent Share		Amount (` Billion)	Per cent Share
	1	2	3	4	5	6
New	465	2,642	67.3	474	1,545	72.9
Expansion & Modernisation	226	1,196	30.5	178	453	21.4
Diversification	6	69	1.7	5	2	0.1
Others	13	19	0.5	11	120	5.7
Total	**710**	**3,926**	**100.0**	**668**	**2,120**	**100.0**

their capital projects. Out of 51 companies, 21 companies which did not approach banks/FIs or contracted ECBs for part financing, raised ₹10 billion for the purpose of capex as compared with ₹21 billion by 30 companies in the previous year (Table 8).

4. Envisaged Capital Expenditure during 2011-12

4.1 Envisaged Capital Expenditure of Companies Sanctioned Assistance by Banks/FIs

From the time phasing details that reflect the investment likely to be made over the implementation period of the projects, the envisaged 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 to be made by companies that were sanctioned assistance in various years. Accordingly, the envisaged spending in 2011-12 of the corporates on projects which were sanctioned assistance by banks/FIs up to the year 2011-12 were combined to arrive at the estimated capital expenditure in 2011-12.

To the extent possible, revisions/cancellations of the projects sanctioned earlier and details thereof were 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 6. When horizontally read, it shows the capital expenditure that was expected to take place in various years on the projects sanctioned assistance in a particular year. Vertically read, it gives the capital expenditure that would be incurred in a year on projects for which assistance was given either in that year or in previous years.

It is evident from Table 6 that capital expenditure of ₹2,360 billion would have been made during 2011-12 on the projects sanctioned prior to 2011-12. The fresh projects sanctioned during 2011-12 envisaged capital expenditure of ₹746 billion in 2011-12. As such, the total capital expenditure that would have been incurred during 2011-12 aggregated to ₹3,105 billion, (grand total under column 10) reflecting a decline by 11.2 per cent as compared with the last year.

Table 6: Phasing of Capital Expenditure of Projects Sanctioned Assistance by Commercial Banks/FIs

(₹ Billion)

Capital Expenditure in the Year → Year of Sanction ↓	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	1	2	3	4	5	6	7	8	9	10	11
Upto March 2001	200	81	36	13	3						
2001-02	64	20	13	1							
2002-03	58	54	17	6	6						
2003-04	83	263	233	54	26	3					
2004-05		58	367	332	118	51	12	1			
2005-06			99	413	439	237	85	23	18		
2006-07			22	149	946	942	496	148	32	20	
2007-08				5	113	593	723	411	326	78	47
2008-09					1	264	1,022	853	548	363	84
2009-10						2	444	1,359	1,216	804	320
2010-11							3	320	1,101	1,095	823
2011-12								39	254	746	638
Grand Total #	**405**	**477**	**786**	**972**	**1,652**	**2,092**	**2,785**	**3,154**	**3,495**	**3,105**	**1,911**
Per centage change	**7.2**	**17.8**	**64.9**	**23.7**	**70.0**	**26.6**	**33.1**	**13.2**	**10.8**	**-11.2**	*****

#: The estimates are *ex ante*, incorporating only envisaged investment, thus they are different from those actually realised/utilised.
*: Per cent change for 2012-13 is not worked out as capex from proposals that are likely to be sanctioned in 2012-13 is not available.

Table 7: Phasing of ECB/FCCB Contracted by Companies (Un-assisted by Banks/FIs)

Loans contracted in	No of cos.	Total loan contracted	Envisaged drawal schedule of capital expenditure (` billion)								
			upto 2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	1	2	3	4	5	6	7	8	9	10	11
2003-04	203	52	46	2	1	3					
2004-05	353	246	179	45	15	7					
2005-06	365	285		173	93	9	10	2			
2006-07	480	513			350	95	44	7			
2007-08	302	331				259	143	9			
2008-09	272	312					220	121	1		
2009-10	255	324						148	143	22	2
2010-11	302	316							174	109	27
2011-12	438	379								252	128
Total	**2,970**	**2,758**	**225**	**220**	**459**	**373**	**417**	**288**	**318**	**383**	**157**

4.2 Envisaged Capital Expenditure on Projects Funded through ECB (including FCCBs)

Based on available information from drawal schedules in ECB, it is envisaged that a further amount of `383 billion would have been spent on capital expenditure by the companies in 2011-12 (total under column 11 in Table 7), resulting in a growth of 20 per cent over the previous year.

4.3 Envisaged Capital Expenditure by Companies Raising Funds from IPOs/ FPOs/Rights Issues

Based on data of companies that reported to IPOs/ FPOs/Right Issues to fund their capital projects, it is estimated that a further amount of `12 billion would have been spent on capital expenditure by the companies in 2011-12 (total under column 6 of Table 8).

4.4. Envisaged Capital Expenditure by Companies from all Sources

Aggregating the figures in para 4.1 to 4.3 above, it is estimated that capital expenditure of `3,500 billion would have been made by the companies covered in this study in 2011-12. Of this, `1,003 billion was envisaged by 1,127 new projects added in the database in 2011-12 itself. When compared with similar data for 2010-11, it is observed that capital expenditure by private corporate sector declined by 8.7 per cent in 2011-12.

Table 8: Phasing of Capital Expenditure from Issuing Equity

Equity issued during	No of Companies	Capex Envisaged	Implementation Schedule (` billion)				
			Up to 2008-09	2009-10	2010-11	2011-12	2012-13
	1	2	3	4	5	6	7
2006-07	101	151	149	2			
2007-08	57	54	51	3			
2008-09	21	9	8	1			
2009-10	19	18	2	8	7	1	
2010-11	30	21		1	12	6	2
2011-12	21	10			2	5	3
Total	**249**	**263**	**210**	**15**	**21**	**12**	**5**

5. Outlook of Investment for 2012-13

GDP growth at constant prices at 6.5 per cent in 2011-12 moderated when compared with that of 8.4 per cent in 2010-11. Further, the growth rates progressively declined over the four quarters of the year. Index of Industrial production, with 2004-05 as base, also showed decelerated growth in 2011-12 for manufacturing as well as capital goods sector. As regards the financial performance of the non-financial private corporate sector, while the sales growth moderated in the last quarter, sustained growth of input prices and higher interest rates led to declining profits and lower margins in 2011-12. Due to the above developments, corporate investment intentions in 2011-12 exhibited a sharp deceleration.

Demand conditions continue to be a major factor driving investment intentions. The Reserve Bank of India, in its First Quarter Review of Annual Monetary Policy Statement placed the baseline projection of real GDP growth at 6.5 per cent for 2012-13. WPI inflation in 2012-13 is also expected to be around 7.0 per cent and this may inhibit significant reduction in interest costs faced by the corporates. Thus, the investment outlook for 2012-13 remains subdued.

The envisaged capital expenditure in 2012-13 would be the summation of pipeline investment intentions of the projects, which were taken up prior to 2012-13 and the new capital spending proposals expected to come up in the year 2012-13. As per Tables 6,7 and 8, the capital expenditure already planned to be spent in 2012-13 aggregated to `2,073 billion (sanctioned assistance by banks/FIs: `1,911 billion, ECB/FCCB: `157 billion and domestic equity issuance: `5 billion). Even if companies adhere to their investment plan, to match the capex envisaged in 2011-12 (*i.e.* `3,500 billion), the minimum capital expenditure of around `1,427 billion needs to come from the new investment intentions of the private corporate sector in 2012-13. Going by the assessment on date, capital expenditure of the above order does not appear to be feasible. Thus, the envisaged investment by the private corporate sector in 2012-13 is expected to be significantly lower than that in the previous year.