Corporate Investment: Growth in 2004-05 and Prospects for 2005-06*

The article attempts to capture growth of fixed capital investment in the private corporate sector in 2004-05 based on the projects sanctioned assistance by banks and financial institutions during 2004-05 and the previous years. The total project cost as well as the average cost of projects went up significantly in 2004-05, reflecting increased investment opportunities. As in the previous year, the infrastructure projects continued to dominate the scene. Upsurge in metals and metal products projects was also noticeable in 2004-05. The sharp increase in production of capital goods, import of capital goods and other non-oil imports and envisaged capacity accretion supported by low interest rates, improved corporate profitability and robust GDP growth in manufacturing over the quarters in 2004-05 point to the continued momentum in fixed capital investment in 2004-05. The climate for fixed capital investment appears to be conducive during 2005-06.

Introduction

Capital investment is essential for modernisation of productive capacity and adding new capacity for current and future industrial growth. The objective of the article is to make an assessment of capital investment in the private corporate sector, which would provide important insights into the business expectations about performance of economy in general, and the infrastructure and manufacturing sectors in particular[1].

With this objective in view, the study is designed to capture the likely growth of corporate investment based on data on phasing details of projects sanctioned assistance by the commercial banks and the major all-India financial institutions. The approach adopted is based on the methodology developed by Dr. C. Rangarajan in an article captioned "Forecasting Capital Expenditure in the Corporate Sector" published in the December 13, 1970 issue of the 'Economic and Political Weekly'.

The private corporate entities undertaking large projects, generally approach the banks and the term-lending institutions for financing the project cost. The yearly phasing details of capital expenditure available in the relevant project reports with banks and non-bank financial institutions constitute an important source of information on corporate fixed investments. The envisaged phasing details are the basic inputs for estimating likely growth in capital expenditure.

Scope and Coverage

The estimation of the growth in capital investment in this study is based on the projects in the private corporate sector, which are assisted by public sector commercial banks and term-lending institutions. Some companies may raise resources exclusively from capital market to undertake large projects, without seeking any assistance from the banks or term-lending institutions. It is difficult to get the phasing details of capital expenditures from the prospectus issued by such companies. At the same time, there is no reliable information on the end-use of funds raised from the markets. Such projects are excluded from the purview of the study.

The present study covers projects assisted by Industrial Development Bank of India (IDBI), ICICI Bank, Infrastructure Development Finance Company (IDFC) and Infrastructure Leasing & Financial Services Limited (ILFS) and public sector banks during 2004-05, and also covers all the projects that have been sanctioned assistance prior to 2004-05 that have capital expenditure lined up in 2004-05. During 2004-05, these institutions provided financial assistance to 722 projects with an aggregate envisaged cost of Rs. 97,270 crore.

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* Prepared in the Corporate Studies Division of the Department of Statistical Analysis and Computer Services.

1 The previous study 'Corporate Investment: Growth in 2003-04 and Prospects for 2004-05' was published in the November 2004 issue of the RBI Bulletin.

Growth of Corporate Investment in 2004-05

The estimated corporate investment in the year 2004-05 has been worked out by suitably aggregating the data on the time phasing of capital expenditures over the individual years for the duration of projects. For this purpose, all the corporate projects, which have been sanctioned financial assistance by the banks and financial institutions in 2004-05 and in the previous years were considered.

In cases where a company approached more than one institution for project assistance, care was taken to avoid double counting in the compilation. Efforts were made to incorporate the revisions in the phasing of projects sanctioned earlier, to the extent possible. The data consolidated on these lines, are presented in Table 1. When horizontally read, it shows the capital expenditure that are expected to be incurred in various years on the projects for which assistance was sanctioned in a given year. Vertically read, it shows the capital expenditure that are expected to be incurred in a year on the projects which were assisted in that year and in previous years.

Apart from the project expenditures, the companies also report the normal capital expenditure likely to be incurred in subsequent years. These expenditures are added to the project expenditures so as to obtain total capital expenditure planned by the private corporate sector.

Capital expenditure of Rs. 32,101 crore were expected to have been incurred during 2004-05 in respect of projects sanctioned up to 2003-04 (col. 12, Table 1). The projects sanctioned assistance during 2004-05 envisaged capital expenditure of Rs.37,039 crore in 2004-05. Thus, the total capital expenditure that might have been incurred during 2004-05, amounted to Rs. 69,140 crore. Further, a few projects sanctioned assistance in 2004-05, were found to have planned capital expenditure to the tune of Rs. 5,942 crore in 2003-04. Thus, the total capital expenditure invisaged to be incurred during 2003-04 works out to Rs. 49,157 crore. Therefore, the capital expenditure planned by the private corporate sector during 2004-05 is likely to have risen by 40.6 per cent as compared with the rise of 17.7 per cent in 2003-04.

Table 1 : Phasing of Capital Expenditure of Projects Sanctioned Assistance by Commercial Banks and Term Lending Institutions

(Rs crore)

Capital expenditure in the Year → Year of sanction ↓	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Upto March 1994	20,462	12,671	5,411	3,962	2,513	1,823	762	591				
1994-95	18,261	20,776	12,760	5,874	1,115	441	456	400	328			
1995-96	2,519	26,531	24,442	12,590	3,971	892	770	782	677	599		
1996-97	69	2,326	21,917	20,044	8,592	2,800	588	618	617	594	463	176
1997-98	8	1,165	4,437	21,359	19,122	10,111	3,833	1,148	889	703	566	195
1998-99	414	657	1,408	6,415	23,321	18,622	10,248	3,340	1,545	1,701	725	184
1999-00		2	13	256	8,286	11,971	11,640	7,107	5,603	695	468	
2000-01			22	32	36	4,085	17,054	15,076	11,472	4,324	1,624	717
2001-02					62	266	6,604	8,384	6,386	1,990	1,318	115
2002-03					5	30	96	680	5,763	5,429	1,708	574
2003-04						1,313	517	547	8,470	27,180	25,229	6,412
2004-05										5,942	37,039	33,771
Total upto 2004-05	41,732	64,128	70,411	70,532	67,023	52,355	52,568	38,673	41,749	49,157	69,140	42,144
Grand Total #	41,948	64,319	70,691	70,724	67,131	52,435	52,668	38,673	41,749	49,157	69,140	42,144
Percentage change	25.7	53.3	9.9	0.0	-5.1	-21.9	0.4	-26.6	8.0	17.7	40.6	

: a) Includes assistance provided by the IDBI under Bills Rediscounting Scheme and Technical Development Fund Scheme.

b) The estimates of Corporate Investment are *ex ante* and differ in scope and methodology from the *ex post* estimates of corporate fixed investment as available in National Accounts Statistics (NAS). 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.

Projects sanctioned during 2004-05

This study covers 722 corporate projects assisted by term-lending institutions and commercial banks during 2004-05 and their aggregate cost of projects amounted to Rs. 97,270 crore, spread over seven year period spanning from 2003-04 to 2009-10. In 2003-04, 591 projects were covered and had an aggregate projects' costs of Rs. 72,940 crore (Table 2). The normal capital expenditure of the 722 projects amounted to Rs.131 crore phased out over the period of five years from 2003-04 to 2007-08. The total fixed capital expenditure of these projects amounted to Rs. 97,401 crore. The phasing details of the projects sanctioned during 2004-05, showed that 38.0 per cent of the total fixed capital expenditure amounting to Rs. 37,000 crore is planned to be incurred in the year of sanction and another 34.7 per cent (Rs. 33,742 crore) in the following year 2005-06. The share of capital expenditure in the year preceding the year of sanction was lower at 6.1 per cent.

Industrial Pattern of Projects

The industrial classification of projects adopted for this study is based on the industrial activity as indicated in the project reports. The three major industry groups, *viz.*, infrastructure, engineering and chemicals together accounted for 66.5 per cent of the total cost of projects in 2004-05 as compared with 78.1 per cent in the previous year. Infrastructure projects accounted for a substantial share of 33.5 per cent in the aggregate cost of projects in 2004-05; the share was, however, lower when compared with that of 56.5 per cent in 2003-04. The share of telecom sector declined significantly to 16.3 per cent in 2004-05 (39.3 per cent in 2003-04), whereas that of power sector increased marginally to 14.1 per cent in 2004-05 from 13.2 per cent in the previous year (Table 3) (Chart 1).

The share of engineering industry in the aggregate cost of projects substantially increased from 19.5 per cent in 2003-04 to 30.1 per cent in 2004-05. The Project cost of chemical industry accounted for 2.9 per cent of the aggregate cost of projects in 2004-05 (2.1 per cent in 2003-04). Project expenditure in metals and metal products and textiles increased significantly vis-à-vis corresponding expenditure in 2003-04. Among industries, which accounted for 2 per cent to 5 per cent of the total cost of the projects in 2004-05 were services (hospitals, transport and entertainment) (4.3 per cent), cement (3.7 per cent), paper and paper products (2.4 per cent), minerals (2.3 per cent) and hotels (2.3 per cent).

Table 2 : Phased Project and Normal Capital Expenditure of Projects Sanctioned in 2003-04 and 2004-05

(Rs. crore)

Project expenditure	1999-2000 to 2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
I : 2003-04	**Number of projects : 591**									
Phased capital expenditure	2,377	8,470	27,131	25,204	6,402	3,056	300	—	—	72,940
	(3.3)	(11.6)	(37.2)	(34.6)	(8.8)	(4.2)	(0.4)	—	—	(100.0)
Normal capital expenditure	—	—	49	25	10	7	—	—	—	91
Total	**2,377**	**8,470**	**27,180**	**25,229**	**6,412**	**3,063**	**300**	—	—	**73,031**
	(3.3)	**(11.6)**	**(37.2)**	**(34.5)**	**(8.8)**	**(4.2)**	**(0.4)**	—	—	**(100.0)**
II : 2004-05	**Number of projects : 722**									
Phased capital expenditure	—	—	5,937	37,000	33,742	13,488	5,782	1,248	72	97,270
	—	—	(6.1)	(38.0)	(34.7)	(13.9)	(5.9)	(1.3)	(0.1)	(100.0)
Normal capital expenditure	—	—	5	39	29	29	29	—	—	131
Total	—	—	**5,942**	**37,039**	**33,771**	**13,517**	**5,811**	**1,248**	**72**	**97,401**
	—	—	**(6.1)**	**(38.0)**	**(34.7)**	**(13.9)**	**(6.0)**	**(1.3)**	**(0.1)**	**(100.0)**

Note : Figures in brackets denote percentage shares in the total.

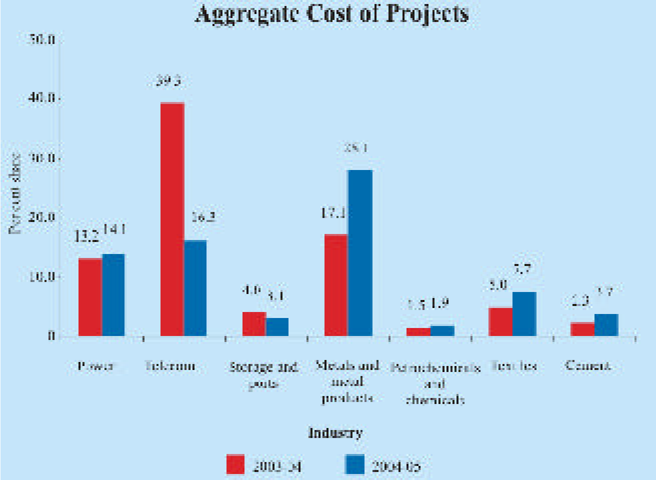
— : Nil / Negligible.

Table 3: Industry-wise Distribution of Projects and their Cost in 2003-04 and 2004-05

Industry	2003-04			2004-05		
	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 (i + ii + iii)	**57**	**41,210**	**56.5**	**76**	**32,586**	**33.5**
i) Power	35	9,615	13.2	61	13,711	14.1
ii) Telecom	4	28,688	39.3	4	15,832	16.3
iii) Storage & Ports	18	2,907	4.0	11	3,043	3.1
2. Engineering (i + ii + iii + iv)	**134**	**14,257**	**19.5**	**189**	**29,299**	**30.1**
i) Metals & Metal Products	104	12,463	17.1	141	27,331	28.1
ii) Automobile & Auto-ancillaries	15	936	1.3	25	1,298	1.3
iii) Electrical equipments	8	655	0.9	7	263	0.3
iv) Non-electrical machinery	7	204	0.3	16	408	0.4
3. Chemicals (i + ii)	**39**	**1,506**	**2.1**	**38**	**2,822**	**2.9**
i) Petrochemicals & chemicals	23	1,124	1.5	16	1,814	1.9
ii) Pharmaceuticals & drugs	16	382	0.5	22	1,008	1.0
4. Cement	10	1,664	2.3	14	3,642	3.7
5. Ceramics	14	328	0.4	10	1,161	1.2
6. Minerals	9	123	0.2	20	2,235	2.3
7. Textiles (other than Jute)	103	3,676	5.0	126	7,458	7.7
8. Paper & paper Products	15	584	0.8	17	2,330	2.4
9. Hotels and restaurants	21	1,434	2.0	20	2,254	2.3
10. Services (Transport, Hospitals and Entertainment)	38	2,251	3.1	45	4,201	4.3
11. Food Products/Processing	32	558	0.8	47	1,745	1.8
12. Information Technology	17	1,633	2.2	16	979	1.0
13. Others*	102	3,716	5.1	104	6,557	6.7
Total	**591**	**72,940**	**100.0**	**722**	**97,270**	**100.0**

* Comprise industries, each with a share of less than 1 per cent in total cost of projects in 2003-04 and 2004-05.

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



SIZE-WISE PATTERN OF PROJECTS

Very large projects, each with a project cost of Rs.500 crore and above, numbering 36 accounted for 59.3 per cent of the total cost of projects in 2004-05 (Table 4). The aggregate cost of these projects worked out to Rs. 57,714 crore. In 2003-04, 20 such projects (aggregate cost of Rs. 48,887 crore) accounted for 67.0 per cent of total cost of all projects.

STATE-WISE PATTERN OF PROJECTS

The state-wise classification of projects is based on the location of the projects as stated in the project reports.

There were 33 projects that are located in more than one state (presented in the category multiple

Table 4: Size-wise Distribution of Projects and their Cost in 2003-04 and 2004-05

Size of Projects (Rs. crore)	2003-04			2004-05		
	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. Less than 10	144	651	0.9	76	373	0.4
2. 10 to 50	301	6,718	9.2	390	9,112	9.4
3. 50 to 100	71	5,077	7.0	107	7,710	7.9
4. 100 to 200	31	4,121	5.6	75	10,476	10.8
5. 200 to 500	24	7,486	10.3	38	11,885	12.2
6. 500 & above	20	48,887	67.0	36	57,714	59.3
Total	**591**	**72,940**	**100.0**	**722**	**97,270**	**100.0**

states), accounting for 19.4 per cent of the aggregate project cost in 2004-05; in 2003-04, the share of such projects was higher at 36.7 per cent (Table 5).

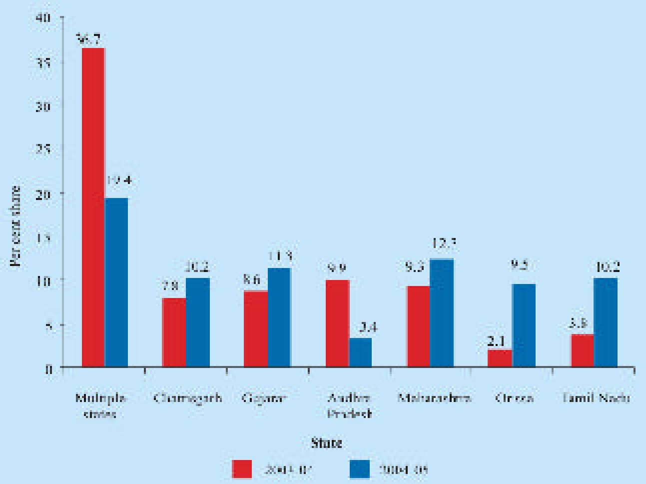
State-wise, Maharashtra occupied the top position with an aggregate cost of projects at Rs. 11,927 crore accounting for 12.3 per cent of the total cost of projects in 2004-05 followed by Gujarat (11.3 per cent), Tamil Nadu (10.2 per cent), Chhattisgarh (10.2 per cent) and Orissa (9.5 per cent) (Chart 2).

Table 5: State-wise Distribution of Projects and their Cost During 2003-04 and 2004-05

State	2003-04			2004-05		
	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. Andhra Pradesh	56	7,191	9.9	38	3,330	3.4
2. Chhattisgarh	15	5,664	7.8	41	9,912	10.2
3. Delhi	19	3,158	4.3	12	1,471	1.5
4. Gujarat	73	6,266	8.6	81	10,983	11.3
5. Haryana	17	293	0.4	21	1,440	1.5
6. Himachal Pradesh	13	1,218	1.7	17	1,358	1.4
7. Karnataka	35	1,572	2.2	50	6,641	6.8
8. Madhya Pradesh	9	1,791	2.5	19	766	0.8
9. Maharashtra	69	6,809	9.3	103	11,927	12.3
10. Orissa	19	1,512	2.1	30	9,256	9.5
11. Punjab	30	933	1.3	32	2,609	2.7
12. Rajasthan	47	2,270	3.1	26	1,587	1.6
13. Tamil Nadu	67	2,766	3.8	110	9,929	10.2
14. Uttar Pradesh	39	2,548	3.5	23	1,348	1.4
15. West Bengal	29	1,057	1.4	40	2,324	2.4
16. Multiple States	14	26,775	36.7	33	18,893	19.4
17. Others*	40	1,116	1.5	46	3,497	3.6
Total	**591**	**72,940**	**100.0**	**722**	**97,270**	**100.0**

* Comprise states/ union territories, each with share of less than 1 per cent in aggregate cost of projects in 2003-04 and 2004-05.

Chart 2: Share of Major States in Aggregate Project Cost



PURPOSE-WISE PATTERN OF PROJECTS

New projects, numbering 344, with a total cost of projects at Rs. 40,829 crore, accounted for 42.0 per cent of the aggregate envisaged cost of projects in 2004-05 (in 2003-04, there were 322 such projects with a share of 65.0 per cent) (Table 6 & Chart 3).

The share of 285 projects for expansion (Rs. 45,552 crore) stood at 46.8 per cent in 2004-05 as compared with 206 such projects accounting for 30.9 per cent in the previous year.

ASSESSMENT AND PROSPECTS: ASSESSMENT OF 2004-05

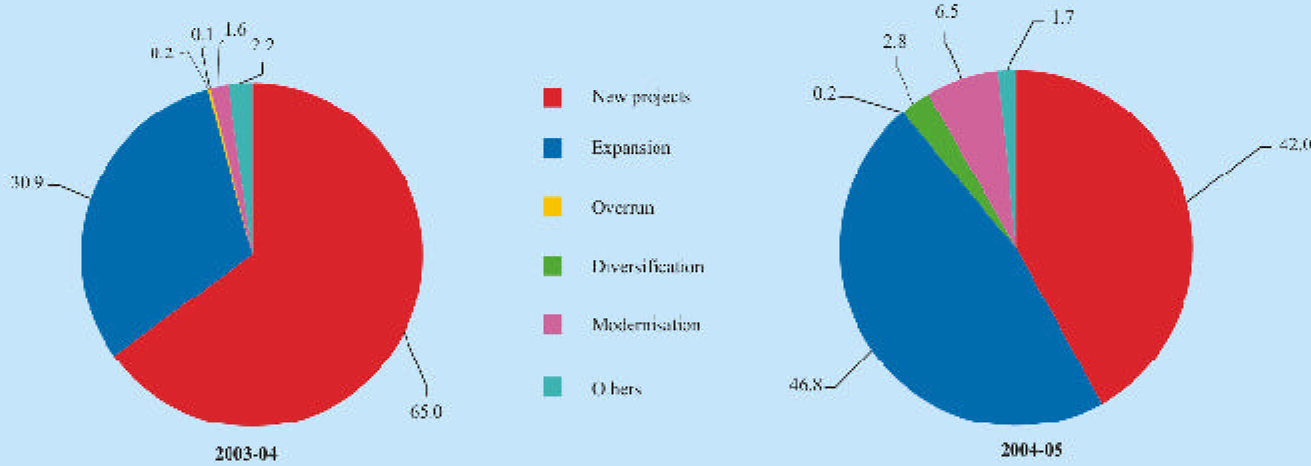
Overall, the investment climate that distinctly improved in 2003-04 stayed favourable during 2004-05. The upward momentum in corporate investment in 2004-05 was reinforced by a variety of factors including accelerated growth in the industrial sector, infrastructure development in the form of roads, ports, telecom and power, high credit off-take from the banking sector and benign interest and inflation rates. Led by significant growth in manufacturing sector during 2004-05, achieved on a reasonably high base, capacity utilisation could be expected to improve significantly. Continued expansion has been supported by domestic and external demand, with latter evident in robust growth of merchandise and services exports. Considering that domestic production of capital goods has accelerated recording 12.6 per cent growth in 2004-05 on top of 13.6 per cent growth last year, and also that capital goods imports in 2004-05 have increased by 23.5 per cent on top of 35.4 per cent growth in corresponding period last year, fixed investments appear to be notably positive reflection of conducive climate. Interestingly, favourable industrial climate was sustained inspite of less than satisfactory monsoon in 2004-05. Corporate results continue to be good over last few quarters. Credit off-take from the banking sector has accelerated to industries such as infrastructure, construction, electricity, and petroleum. This indicates good industrial investment demand.

The improved investment sentiments and business confidence is reflected in increased number of firms incurring capital expenditure and the extent of such spending. The total project cost as well as the average cost of projects went up significantly in 2004-05 reflecting increased investment opportunities. The total project expenditure of all the projects sanctioned assistance in 2004-05 amounted to Rs. 97,270 crore as against Rs. 72,940 crore in 2003-04. The capital

Table 6: Purpose-wise Distribution of Projects and their Cost During 2003-04 and 2004-05

Purpose	2003-04			2004-05		
	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. New	322	47,414	65.0	344	40,829	42.0
2. Expansion	206	22,506	30.9	285	45,552	46.8
3. Over Run	2	157	0.2	6	145	0.2
4. Diversification	4	94	0.1	8	2,737	2.8
5. Modernisation	22	1,150	1.6	45	6,327	6.5
6. Others	35	1,619	2.2	34	1,680	1.7
Total	**591**	**72,940**	**100.0**	**722**	**97,270**	**100.0**

Chart 3: Purpose-wise Distribution of Aggregate Cost of Projects (per cent)



expenditure expected in 2004-05 including that on the projects sanctioned assistance in all the prior years, amounts to Rs. 69,140 crore, indicating a substantial rise over that of the previous year.

Prospects for 2005-06

The prospects for the Indian economy remain encouraging. It is too early to gauge the impact of deficiency of rain fall in June on the agricultural production. Given the base effect arising from low growth last year and the fact that *rabi* crop now is almost as important as *kharif*, agriculture is expected to contribute positively to the overall growth in 2005-06. Manufacturing sector's dependence on agricultural growth appears to have diminished in recent years with the sector recording a growth of 6.0 per cent or more in each of the last three years, despite two of those years being bad monsoon years. There has been healthy growth in non-food credit off-take that supports the momentum in industrial production coupled with buoyancy in export growth. The momentum in industrial growth, led by manufacturing, has been sustained in the first two months of 2005-06 and is broad based. Indications are that both consumption and investment demand are currently buoyant. Business surveys point to high levels of both business confidence and capacity utilisation. Seasonal slowdown in credit demand, generally seen in the first quarter, is not observed this year. However, risks to growth and investment remain arising mainly from continued surge in international oil prices.

The envisaged capital expenditure which has grown for the past three years, is susceptible to a slow down due to its cyclical nature. The planned investment for 2005-06 based on the projects which have been sanctioned financial assistance in the years prior to 2005-06, amounted to Rs. 42,144 crore. The aggregate capital expenditure in 2005-06 would also include capital expenditure on projects sanctioned assistance in that year. Therefore, if the aggregate capital expenditure in 2005-06 has to show growth over that in 2004-05 (*i.e.*, Rs. 69,140 crore), the capital expenditure in 2005-06 on new projects must be over Rs. 26,996 crore. Since business conditions remain conducive to support corporate investment demand and lending rates remain low while corporate balance sheets are in a generally sound position, such an amount of investment in 2005-06 on new projects sanctioned assistance seems to be very likely. In other words, the year 2005-06 may witness an increase in corporate investment when compared to that in 2004-05.