THE FINANCIAL EXPRESS

Fri, 24 Mar-23; Special Report - Financial Express - Delhi; Size : 2844 sq.cm.; Circulation:85000; Page : 6

INVESTING FOR THE LONG HAUL

FINGERS crossed

Private capex has begun to pick up pace but industry captains still have a long list of ifs and buts, reports **Rajesh Kurup**

IN SEPTEMBER 2022, finance minister Nirmala Sitharaman exhorted India Inc to invest more and wondered what was stopping them from investing more, that too at a time when foreign investors were showing confidence.

The FM, speaking at a summit, stated sops such as production-linked incentive scheme (PLI) and conducive economic conditions and policies had prompted other countries to look at India as an investment destination.

She had a point. The governmental capex – used for infrastructure push such as building highways, airports, housing, drinking water and sanitation among others – earmarked for FY23 was ₹7.5 trillion. In the Budget for FY24, the government hiked public capex outlay by 33% to ₹10 trillion, the highest-ever, accounting for 3.3% of the GDP.

In December 2022, chief economic advisor V Anantha Nageswaran had mirrored the FM's sentiments and said that the private sector needs to increase capex as it may not be healthy for the public sector to

ILLUSTRATION: SHYAM KUMAR PRASAD

continue to invest at the same pace as it did in the last decade. The combined investment by Centre, States and public sector enterprises have gone up 3.5 times over the last 10 years from ₹6.8 trillion to ₹21.2 trillion currently.

Yet, the numbers show private sector capex so far is not all that bad. According to the Economic Survey, India saw private investments of ₹3.3 trillion in the first six months of FY23, up 50% from ₹2.2 trillion a year earlier.

This increased capital expenditure in the first half is the best in five years and comes after the economy witnessed a slowdown in such spending in FY20 and FY21 when companies were reeling under the pressure of decline in demand and slower economic growth amid the Covid-19 pandemic. Also, the amount of capital expenditure nearly doubled in past five years, the survey noted.

What's encouraging is that capacity utilisation hit a tipping point of 75.3% in the fourth quarter of FY22 and settled at 74.3% in the first quarter of this fiscal.

No one disagrees, however, that the FM had a valid reason for expressing her concern. There is still some way to go in lifting the investment cycle. Recent National Statistical Office data shows fixed investments in fiscal 2023 was still about 5% below the pre-Covid decadal trend, which means private sector investment (which is 35-40% of total infrastructure plus industrial investments) is also still diffident.

So will the Budget 2023-24 finally unleash the so-called animal spirits? Most in India Inc are still keeping their fingers crossed but feel the momentum has already begun to build up.

Says R Shankar Raman, whole-time director & CFO, Larsen & Toubro (L&T): "I don't think it will open up in any big bang manner. The general business sentiment is positive, industries are optimistic, and from both the domestic and global perspective these will translate into private capex. Sectors such as minerals, metals and automobiles have discovered their pricing power as demand picked up. As countries started operating on China+1 strategy, Indian products and services are also in demand." Private sector capex would come in airports, railway stations, data centres and renewable energy among others as the country transits to more and more clean energy, he adds.

Big commitments from top companies

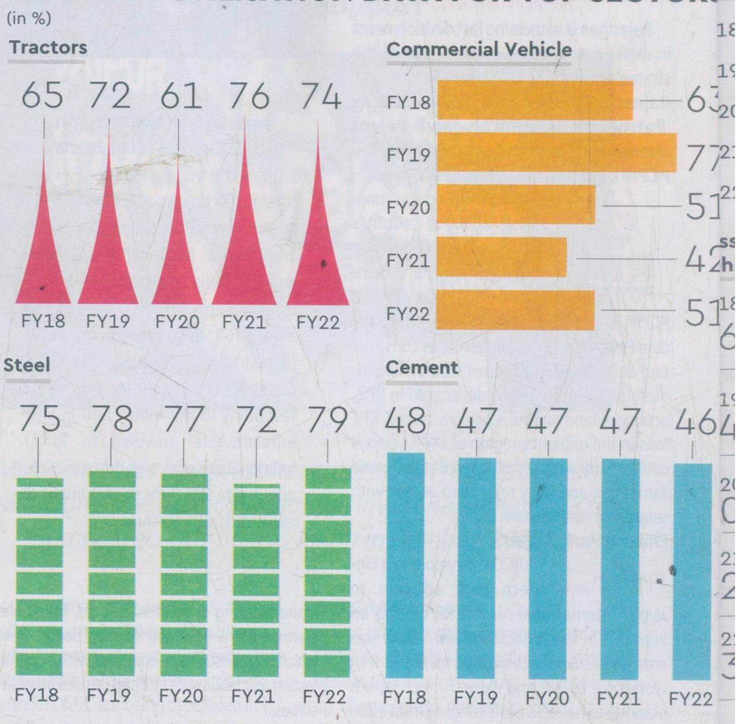
According to Seshagiri Rao MVS, joint MD and group CFO, JSW Steel, there has been an increase in investments by corporates, especially in sectors such as road and steel. "If you look at the steel sector, JSW has already committed ₹38,000 crore. Further, companies such as AM/NS India (ArcelorMittal Nippon Steel India), Jindal Steel & Power (JSPL) and Tata Steel are also increasing capacities for which they have committed to invest. We are seeing green shoots in the steel sector," Rao says.

Tata Group chairman N Chandrasekaran has committed $90 billion in capex over the next five years across existing and new businesses. Similarly, Reliance Industries, Adani Group and other large corporates have committed to invest, and it's already happening. This will also lead to the MSME sector joining the bandwagon, which is a little away, otherwise private capex is picking up,

> JSW has already committed ₹38,000 crore. Companies such as AM/NS India (ArcelorMittal Nippon Steel India), Jindal Steel & Power (JSPL) and Tata Steel are also increasing capacities for which they have committed to invest."

SESHAGIRI RAO MVS,
JOINT MD AND GROUP CFO,
JSW STEEL

CAPACITY UTILISATION DATA FOR TOP SECTORS



Rao says.

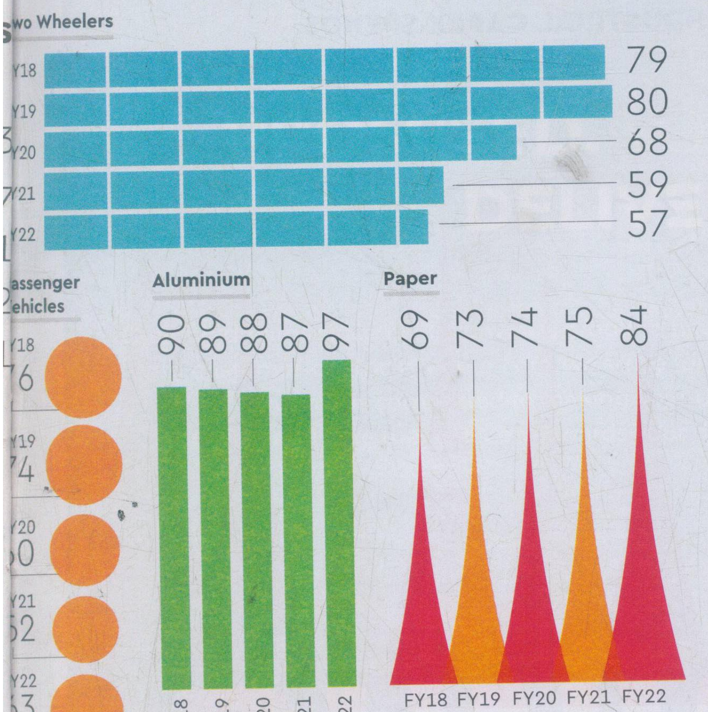
For instance, Jindal Stainless is currently in the completion phase of the capex it announced two years ago. By the end of this fiscal, the firm's capacities will grow to nearly 3 million tonne from the earlier 1.9 million tonne.

Once the capex announced by the government kicks in, it will drive demand for steel and stainless steel in the country. "Once we stabilise our increased capacities, we will be interested to invest further capex to meet the rise in domestic demand," says Abhyuday Jindal, MD, Jindal Stainless, adding that the only caveat in this growth story is the free-flowing imports of stainless steel from countries such as China and Indonesia.

The stainless steel industry is still operating at about 60% of capacity, and the industry expects installed capacity of stainless steel in India will go up from 6.8 million tonne to 20 million tonne by 2047. "This cannot happen without private investment," Jindal says.

The PLI push

Private capex in India is expected to gain pace over the medium term, supported by the general uptick in macroeconomic activity and supportive policy measures



Source: CRISIL Market Intelligence & Analytics

> "The private sector balance sheets are strong at the moment, and they are also prepared to invest."
>
> **SHASHI KIRAN SHETTY**, FOUNDER & CHAIRMAN, ALLCARGO GROUP

in place such as PLI, AatmaNirbhar Bharat (self-reliant India) and the China+1 strategy adopted by many countries. The investments would also be made in export-oriented sectors due to policy tailwinds. Some of the key sectors that will see capex coming in the next few fiscals include oil & gas, auto and auto components, metals, cement, data centres, scrappage centres, recycling facilities, renewable energy and charging infrastructure among others.

Additionally, PLI incentives would further spur significant capex in certain sectors such as solar photovoltaic modules, advanced chemistry cells (ACC) batteries and textiles.

"Our current capex is in the range of ₹10,000-13,000 crore a year, and going forward we will continue to have that kind of a capex. Depending on projects it would peak but at the same time we will keep an eye on debt levels," said TV Narendran, CEO & MD, Tata Steel.

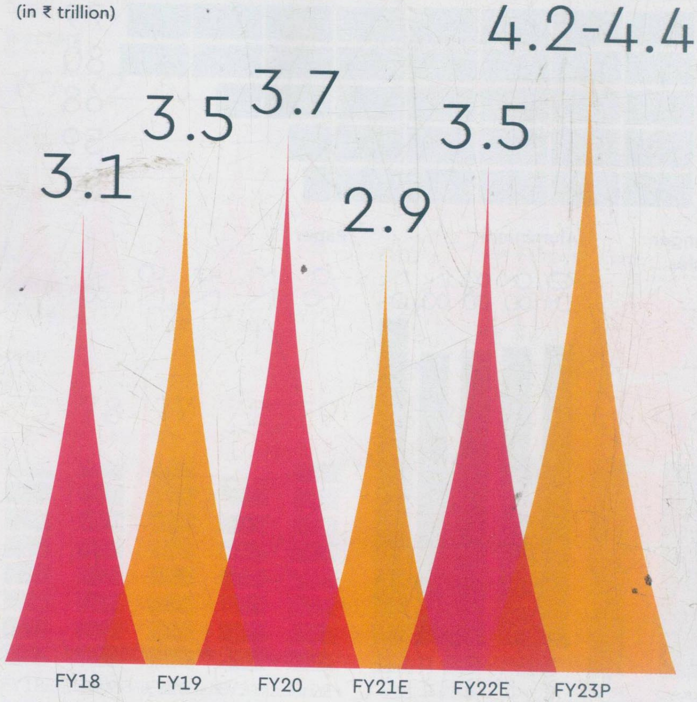
Others say the pickup in private capex would be more visible in select sectors. For example, several steel players have announced expansion plans with the pickup in infrastructure and industrial activities. In the automotive sector, demand pickup coupled with investments for localisation under several schemes such as Phased Manufacturing Programme under FAME-II and PLI for auto components, among others, would support investments in both OEMs and ancillary space, Kinjal Shah, vice president and co-group head - corporate sector ratings at ICRA, says.

Investments in infrastructure such as data centres would also pick up pace over the near- to medium-term. Regulatory and policy push for environment-related mandates also augurs well for investment in related infrastructure such as scrappage centres, recycling facilities, renewable energy and charging infrastructure among others to enable

> The general business sentiment is positive, industries are optimistic, and from both the domestic and global perspective these will translate into private capex."

R SHANKAR RAMAN,
WHOLE-TIME DIRECTOR & CFO,
LARSEN & TOUBRO

INDUSTRIAL CAPEX SPENDS
(in ₹ trillion)



Source: CRISIL Market Intelligence & Analytics

compliance to these policies. "Accordingly, private capex would pick up pace going forward," Shah adds.

Defence is another sector that is craving for private sector investments. On February 13, Prime Minister Narendra Modi asked private companies to invest in the country's defence sector as it will open up global business opportunities and help India emerge as a top destination for manufacturing of defence equipment.

"Today, I would call upon the private sector to invest more and more in the defence sector," Modi said, inaugurating the Aero India show 2023 in Bengaluru.

According to Pradeep Bakshi, MD & CEO, Voltas, the measures introduced by the finance minister in the Budget will not only support domestic capacity creation but also boost infrastructure, generating both growth and employment across industries.

"The overall increase in capital expenditure will also create long-term benefits paving the way for recovery. The development of urban infrastructure in tier-II and III cities will increase the demand for infrastructure projects, consumer appliances and heating, ventilation and air conditioning systems. We also foresee rising demand for construction equipment, considering significant investment in infrastructure projects like railways, road, urban infrastructure and power," Bakshi adds.

Flush with funds

The financial institutions in the country are also ready to support India Inc's capex plans. "Corporate balance sheets are looking much better (with lower leverage) as of now. So also, bank balance sheets are looking good (with lower NPAs). Hence, supporting capex is clearly not the issue. However, Covid (which impacted demand and capacity utilisation), followed by huge global uncertainty and headwinds that we are seeing now, is what made Corporate India go cautious on capex," says Manish Kothari, president and head – commercial banking at Kotak Mahindra Bank. "Interest rates are also expected to remain range-bound (considering that the government borrowing programme and inflation seems to be presently under control) which should help the overall cause," Kothari adds.

According to Shashi Kiran Shetty, founder & chairman at Allcargo Group, the private sector balance sheets are strong at the moment, and they are also prepared to invest. "The government clearly has its strategy right on creating logistics infrastructure to enable economic growth," he says.

Parameswaran Ramakrishnan, vice president of corporate accounts and investor relations, L&T, in an earnings call after third-quarter results, says private sector capex is also seeing signs of revival. "In Q3 FY23, the project announcements by the private sector were at a multi-year high. In Q3, our share of private within the domestic orders was 32% vis-a-vis 18% last year, largely witnessed in the buildings and factories sub-segment and in the ferrous sectors," he says.

According to Crisil data, on an average India spends ₹12 trillion in capex each year. This average spend is based on 35-40 sectors that account for a large percentage of the total capex. Of this capex, share of infrastructure has on an average been 77% and industrial at 23%. Within infra capex, about 85% would be public in nature.

"Within industrial capex one can say the private sector accounts for 63% and the rest comes from government-owned companies. Now, to evaluate private capex we need to evaluate the capex spends of the industrial sector. When one looks at top 400 industrial companies spread across 30 sectors, we see that they account for nearly 55% of total industrial capex," Hetal Gandhi, director-research at Crisil Market Intelligence and Analytics, said.

> "Our current capex is in the range of ₹10,000 crore-₹13,000 crore a year. We will continue to have that kind of a capex, and depending on projects it would peak. At the same time we will keep an eye on debt levels."
>
> **TV NARENDRAN,** CEO & MD, TATA STEEL

In FY21, capex saw a drop of 25% and in FY22 on a low base it rose by 30%. Now in H1 FY23, the same saw a continuous increase of 25-30% implying a rise in investments by the private sector. The second half of the fiscal generally sees stronger capex spends, and a rise in capex in FY23 will be boosted by the PLI scheme, albeit the sectors covered under the PLI except semiconductors have low capex intensity, Gandhi adds.

Investments in infrastructure such as data centres to support the digitalisation journey of the country would also pick up pace over the near- to medium-term. Regulatory and policy push for environment-related mandates also augurs well for investment in related infrastructure such as scrappage centres, recycling facilities, renewable energy and charging infrastructure to enable compliance to these policies.

The momentum in the private capex space is building up, slowly but at a steady pace.