



ECONOMIC RESEARCH

Investment Trends-Q1FY23

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Private sector drives new project investments in Q1FY23

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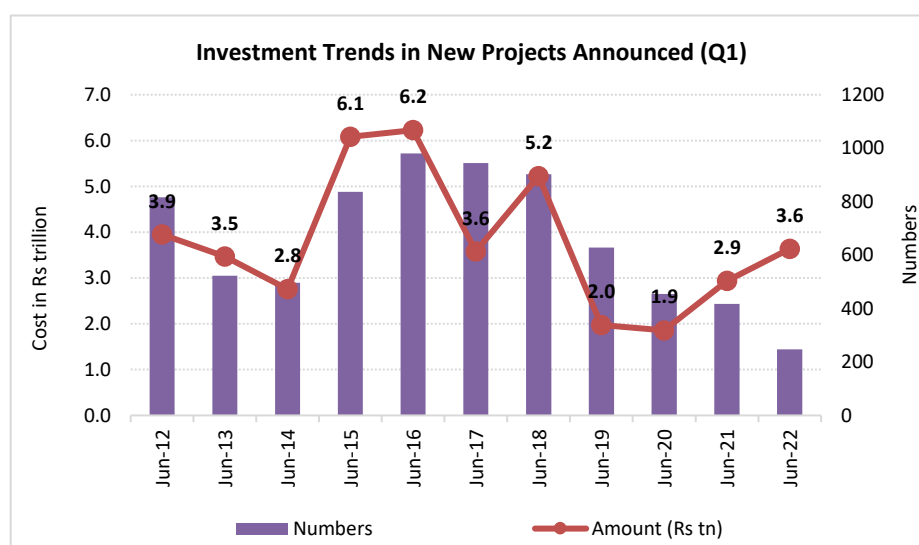
New project announcements in Q1FY23 at Rs 3.57 trillion show economy on path to normalcy; recovery still nascent

As per provisional data released by the CMIE, growth in new industrial investments during the April-June 2022 quarter (Q1FY23) on a year-on-year (y-o-y) basis increased by 23.7%, while on a quarter-on-quarter (q-o-q) basis, it slid by 38.5%. The investments reported the first sequential drop on a q-o-q basis since Q3FY21. As compared to the corresponding period in previous years, the investments remained the highest since Q4FY19 (Chart below). (Table 1).

Quarter Ending	Cost of the Projects			Number of projects		
	Amount (Rs tn)	Y-o-Y Changes (in %)	Q-o-Q changes (in %)	Numbers	Y-o-Y Changes (in %)	Q-o-Q changes (in %)
Q1FY21	1.86	-6.0	-63.7	455	-27.5	-41.9
Q2FY21	2.64	-25.7	42.0	788	22.7	73.2
Q3FY21	1.57	-79.7	-40.5	463	-23.6	-41.2
Q4FY21	2.57	-49.8	63.7	818	4.5	76.7
Q1FY22	2.94	58.3	14.4	417	-8.4	-49.0
Q2FY22	3.27	24.1	11.4	509	-35.4	22.1
Q3FY22	3.53	125.1	8.0	614	32.6	20.6
Q4FY22	5.91	130.2	67.4	545	-33.4	-11.2
Q1FY23	3.64	23.7	-38.5	247	-40.8	-54.7

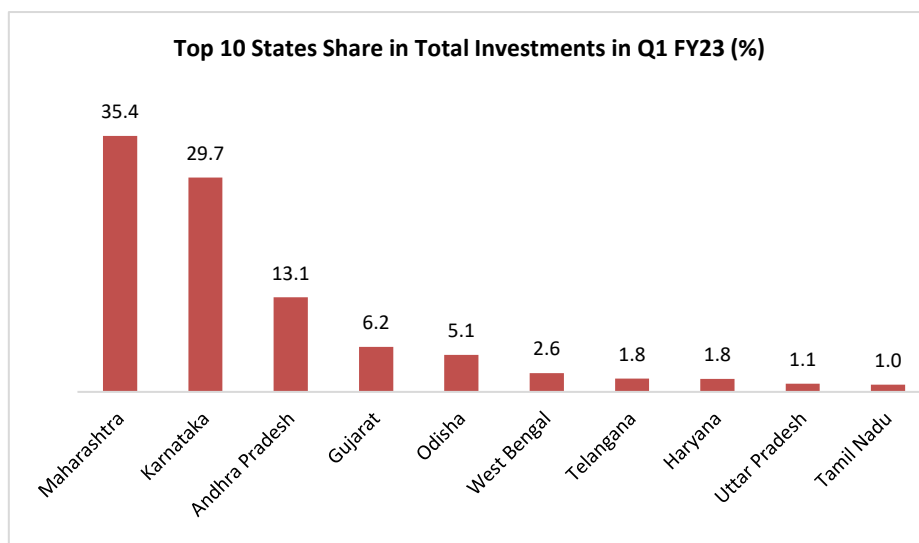
Note: Data is provisional
Source: CMIE, BWR Research

Investment momentum remained strong compared to a year ago



Note and Source: As in Table 1

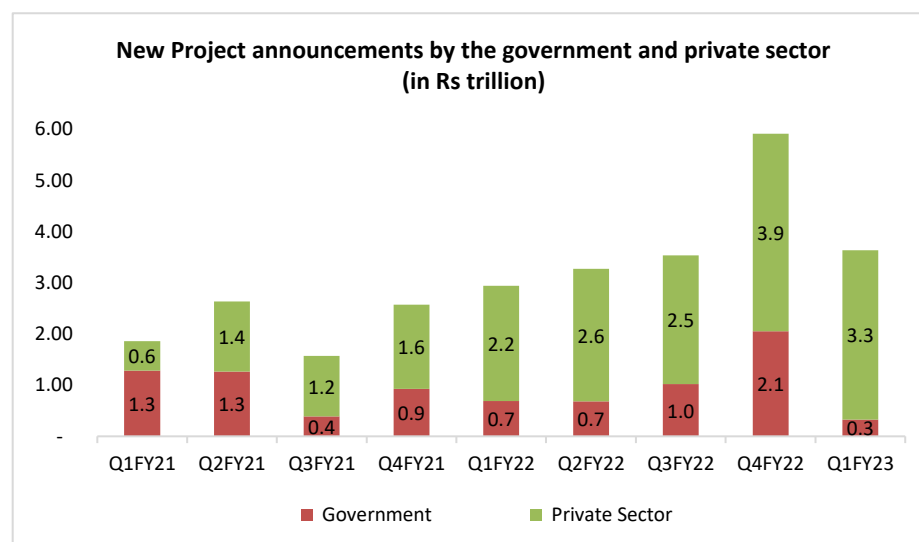
Maharashtra topped, with investment proposals worth Rs 1.3 trillion, followed by Karnataka investing Rs 1.1 trillion in Q1FY23.



Note and Source: As in Table 1

Private sector step-up on capex front; government sector investments lag

The investment trend in new projects has steadily declined since the onset of the pandemic, but improved in Q4FY22, reflecting a post-pandemic revival. However, the prolonged Russia-Ukraine war and sanctions thereof, along with continued chip shortages, which impact a number of industries, continued to pose uncertainty. Monetary tightening and the rising interest rate scenario, coupled with renewed supply constraints due to the war and soaring crude oil prices, have further dampened sentiments. The number of new projects announced during Q1FY23 was more than halved compared to that in the previous quarter.



Note and Source: As in Table 1.

The number of new projects proposed by the government dropped to 59, amounting to just Rs 327 billion, while the number of new projects announced by the private sector rose to 188, and the proposed investments stood at Rs 3.3 trillion. With government investments having continued to be tepid, the private sector's share in the total new investment proposals increased sharply. The private sector's share comprised 91% of the total new projects announced during Q1FY23, which was much lower, at 58% in the previous quarter.

Despite higher budgeted capital expenditure announced in the Union Budget, the government is holding on to its spending due to the constrained fiscal situation, ongoing inflationary pressures and delay in disbursing the Rs. 1 trillion loan to the states at zero rate of interest. Moreover, the states are wary of investing in new projects during Q1FY23. Of the total new project announcements by the government, only 8% have been announced by state governments.

Outlook on investment sentiments

The government has budgeted Rs 7.5 trillion capital expenditure for FY23, which is 24.5% more compared to the revised estimates of FY22. Enhanced capital expenditure is expected to augment growth and also boost private investment. Although the government has not spent much so far, its investments are likely to pick-up in the coming months.

Higher investments reflect improving demand and economic growth. Economic activities have started gaining traction; however, there is considerable uncertainty regarding the global demand and supply constraints due to the prolonged war between Russia and Ukraine, and elevated commodity prices. The sharp spike in commodity prices, with crude oil averaging more than USD110 per barrel over the last three months, and the high degree of volatility in them heightens the risks. The pick-up in capacity utilisation hints at some improvement in the manufacturing activities; however, persistent supply challenges may act as a dampener. We expect that private investments may pick-up further in the next quarter in line with the manufacturing sector's recovery.

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