Investment climate weak in Dec quarter

Capex plans worth ₹2.1 tn were announced, down 7% sequentially

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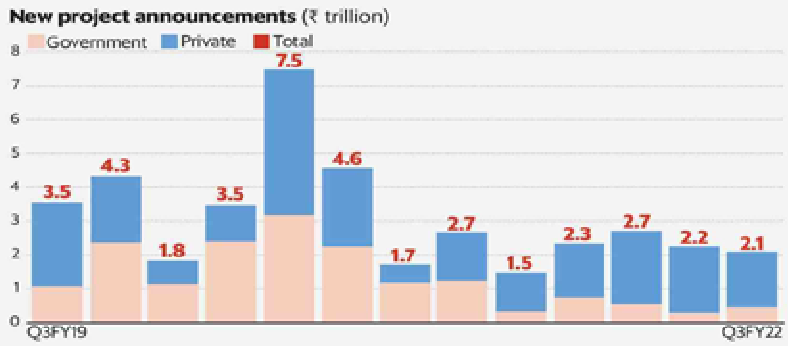
Investment conditions in India appear to have been muted in the December quarter, despite a gradual improvement in economic activity. Companies announced capital expenditure plans worth ₹2.1 trillion during the quarter, down 7% sequentially, according to data from the project-tracking database of the Centre for Monitoring Indian Economy (CMIE). Project announcements had seen a drop of 18% in the previous quarter after a 17% jump in the June quarter.

The numbers are provisional and may be updated later.

The value of new project announcements in the latest quarter was 1.4 times the year-ago period when the country was recovering from the first phase of lockdown imposed to contain the spread of coronavirus. The year 2021 ended with an average quarterly figure that was about half of the pre-pandemic levels of 2019. The looming risk of a third pandemic wave fuelled by the Omicron variant has again forced states to reimpose restrictions, which could dampen sentiment.

Lacklustre show

The year 2021 ended with an average quarterly figure that was about half of the pre-pandemic levels of 2019.



Source: CMIE

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"Since the April-June quarter, the investment trend in new projects has shown a steady deceleration," said M. Govinda Rao, chief economic adviser at Brickwork Ratings. "Again, the fear of the third wave threatens broad-based recovery and it remains to be seen how this will impact the manufacturing sector output and, in particular, new investments," Rao said.

There are some silver linings. The government's capital expenditure plans looked positive as new project announcements rose 57% sequentially to ₹42,384 crore. Both central and state government projects jumped sequentially, by 68% and 17%, respectively.

"Having been conservative in the first two quarters, there have been attempts by both central and state governments to fast-track capital expenditure," Rao said.

However, three projects accounted for a bulk (66%) of the new central government capex announcements: a 2,000 megawatt (MW) floating solar power project by SJVN, a new crude oil pipeline system project from Mundra to Panipat by Indian Oil Corporation, and a Gorakhpur-Siliguri expressway project by the National Highways Authority of India.

On the other hand, private sector firms are going slow on their capital expenditure. New investment announcements in the private sector declined 15% quarter-on-quarter (q-o-q).

"Companies across sectors continue to deleverage, which in our view is laying the ground for an eventual capex recovery, although in the interim, it poses headwinds," said a Nirmal Bang report dated 29 November. "Meanwhile, the interest rate environment remains favourable for private capex."

There were some bright spots across industries. New investments in the manufacturing sector almost doubled during the quarter, and rose 74% y-o-y. Besides, the sentiment appeared more broad-based unlike in the previous quarters, when only a handful managed a good show.

Investments in mining and power managed to stay afloat during the quarter, recording a q-o-q jump of 71% and 18%, respectively. Capex announcements in construction and realty projects were down 60%, while services saw a steep fall of 68%.

While low capacity utilization and poor consumer demand continue to plague domestic investments, an uncertainty regarding Omicron adds to worries in the new year. Though the steady pace of vaccinations may provide some comfort, the recent curbs could again make the investment climate unattractive for some time.

CAUSE FOR CONCERN

NEW projects had seen a drop of 18% in the Sep quarter after a 17% jump in the June quarter

NEW investment announcements in the private sector declined 15% q-o-q in the Dec quarter

THE looming risk of a third covid wave has forced states to impose curbs, which could hurt sentiment