

Capex Tracker: Corporate investments grows in 2QFY24

Government investments grew significantly

- For the fourth consecutive quarter in **2QFY24**, real investments in India grew faster than consumption. After 9.6% growth in FY23, real investments increased by 9.9% YoY in 2QFY24, more than double the growth of 4.3% YoY in real consumption (private + government). However, it is important to note that the (nominal) investments stood at 31.7% of GDP in 1HFY24, similar to 31.3% of GDP in 1HFY23 and the average of ~31% in the pre-Covid period. This regular **update** is intended to track India's capex/investment trend and its key drivers. Here are the key highlights:
- **First, government investments** (center + states) grew 27.7% YoY in 2QFY24 (implying 39.5% growth in 1HFY24). The Center's investments grew 15% YoY (vs. 50.9% YoY in 2QFY23), while states' capex increased by 44% YoY in 2QFY24 (vs. 9.3% YoY in 2QFY23). Compared to an average of 3.5% of GDP in the first half of the previous decade, fiscal investments were 5% of GDP in 2QFY24, almost equally distributed between the center and states.
- Accordingly, the government sector accounted for 16.5% of total investments in 1HFY24, up from 9-11% in the past decade. It also means that private investments (including public sector enterprises, PSEs) grew 9.9% YoY in 2QFY24, marking the highest growth in 3 quarters.
- **Third**, using data on stamp duty & registration fees collected by states, cement production and steel consumption, our estimates suggest that household investments (primarily including residential real estate) surged 17% YoY in 2QFY24, following an average growth of 11% YoY in the past four years. Accordingly, the share of household sector was steady at 42-43% of total investments in the quarter, similar to what it was a decade ago in the early 2010s decade.
- Lastly, as a residual, we find that corporate investments (including PSEs) posted its first growth in 3 quarters. Following a contraction of 0.5%/6.2% YoY in 4QFY23/1QFY24, corporate investments likely grew 3.3% YoY in 2QFY24. The share of corporate sector, thus, fell to ~41% of total investments, lower than ~50% in the pre-Covid period.
- Overall, a strong residential property market holds the potential to boost economic activity, and the government's focus on infrastructure is commendable. However, weak income growth, high interest rates, fiscal consolidation, and high economic uncertainties create vulnerabilities about the durability of the household investments.

For the fourth consecutive quarter in 2QFY24, real investments in India grew faster than consumption. After 9.6% growth in FY23, real investments increased by 9.9% YoY in 2QFY24, almost double the growth of 4.3% YoY in real consumption (private + government). However, it is important to note that the nominal investments stood at 31.7% of GDP in 1HFY24, similar to 31.3% of GDP in 1HFY23 and the average of ~31% in the pre-Covid period (*Exhibit 1*).

Exhibit 1: India's investment rate was broadly unchanged at 31.7% of GDP in 1HFY24

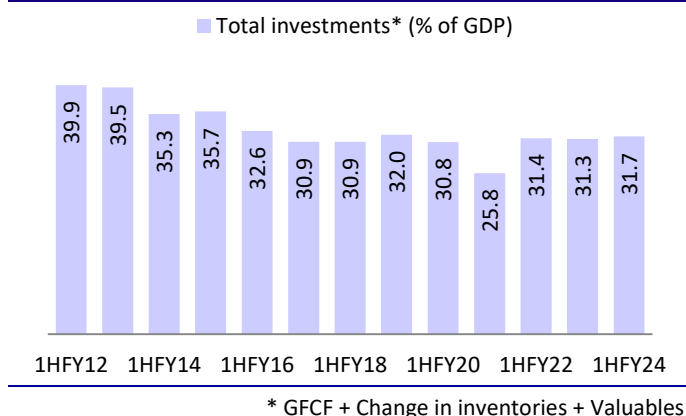
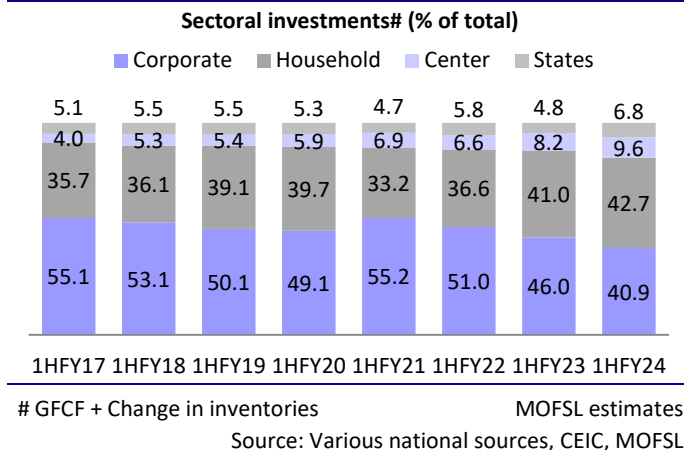


Exhibit 2: Share of corporate sector sild further in 1HFY24; government and household investments surged



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Our estimates suggest that the government and households were the key drivers of India's investments in 2QFY24, while corporate investments also grew for the first time in 3 quarters (*Exhibit 2*). In order to provide a comprehensive and succinct analysis of India's investments, we present a compilation of 13 monthly and 6 quarterly indicators in this note. We further segregate the indicators by sectors to provide an insight into the drivers of investments (*Exhibit 3* on the next page).

Key highlights using proxy indicators:

Government capex was unchanged at 5% of GDP in 2QFY24, compared to an average of 3.5% of GDP in the first half of the pre-COVID period

Private capex grew by 9.9% YoY, the highest growth in 3 quarters

- 1) Using monthly (preliminary) data available for 26 states, our calculations suggest that the government's capex grew 27.7% YoY in 2QFY24, led by 44% growth in states capex and 15% growth in the Center's capex. It means that government investments (excluding loans & advances) grew 40% YoY in 1HFY24, following an average growth of 14.2% in the past four years (FY20-FY23), better than 13.1% average growth in the previous four years (FY16-FY19).
- 2) Government capex was unchanged at 5% of GDP in 2QFY24, compared to an average of 3.5% of GDP in the first half of the pre-COVID period and 4.2% of GDP in 1HFY23 (*Exhibit 4-5*). The government, thus, accounted for ~16.5% of total investments in 1HFY24, much higher than 9-11% in the pre-pandemic years.
- 3) With total (nominal) investment growth at 11.7% YoY in 2QFY24, such strong growth in government investments suggests that private capex grew by 9.9% YoY, the highest growth in 3 quarters.
- 4) Within the private sector, using data on stamp duty & registration fees collected by states, cement production and steel consumption, our estimates suggest that household investments (primarily including residential real estate) surged 17.1% YoY in 2QFY24, continuing the strong growth momentum seen in the past many quarters. If so, it confirms that corporate investments grew 3.3% YoY in 2QFY24, marking its first growth in 3 quarters (*Exhibit 6*).
- 5) Further, our estimates suggest that the share of household sector was steady at 42-43% of total investments in the quarter, similar to FY23 and what it was a decade ago in the early 2010s decade (*Exhibit 7*).
- 6) Corporate investments, on the other hand, slid further to 12.4% of GDP in 1HFY24, marking the lowest level in almost two decades and even lower than 12.8% of GDP in 1QFY21 (*Exhibit 8*).
- 7) Lastly, notwithstanding decent growth in household investments, the growth in non-mortgage household debt outpaced mortgage debt growth. Based on our calculations, total household debt by banks increased by 18% YoY in 2QFY24 (excluding the impact of HDFC Ltd.). Within that, non-mortgage debt grew 19%, compared to 14% growth in mortgage debt (*Exhibit 9*). The growth in the former outpaced the growth in the latter for the sixth consecutive quarter.

Our estimates suggest that corporate investments grew 3.3% YoY in 2QFY24, marking its first growth in 3 quarters

Overall, a strong residential property market holds the potential to boost economic activity and the government's focus on infrastructure is commendable. However, weak income growth, high interest rates, fiscal consolidation, and high economic uncertainties create vulnerabilities about its durability. Further, the lagging corporate capex may continue until the general elections next year.

Exhibit 3: Tracking India's investments through various indicators

| Indicator | Unit | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | FY10-19 | FY20-23 | 1HFY24 |
|--|-----------------|--------|--------|--------|--------|--------|---------|---------|--------|
| Total real investments | % YoY | 6.5 | 5.2 | 7.8 | 7.1 | 9.9 | 7.3 | 3.8 | 8.6 |
| GFCF + Change in inventories | % YoY | 9.3 | 7.8 | 8.8 | 7.9 | 11.1 | 7.3 | 3.8 | 9.5 |
| Government investments | | | | | | | | | |
| Total (general) government | % YoY | 29.5 | -11.4 | 18.5 | 54.1 | 27.7 | 12.6 | 14.2 | 39.5 |
| Central government | % YoY | 50.9 | -31.2 | 13.7 | 45.3 | 14.9 | 13.9 | 22.1 | 30.2 |
| State governments* | % YoY | 9.3 | 12.5 | 22.2 | 75.2 | 44.4 | 11.9 | 8.1 | 55.4 |
| Household (HH) investments | | | | | | | | | |
| Household investments@ | % YoY | 12.0 | 9.4 | 19.0 | 13.0 | 17.1 | 11.4 | 10.7 | 15.0 |
| SD&RF collection* | % YoY | 9.4 | 4.9 | 16.1 | 12.7 | 17.5 | 12.7 | 13.8 | 15.1 |
| SCBs household debt \$ | % YoY | 17.9 | 16.8 | 18.7 | 20.2 | 17.7 | 14.0 | 14.0 | 17.7 |
| ow: Mortgage | % YoY | 15.9 | 16.0 | 15.0 | 15.0 | 13.8 | 15.5 | 13.3 | 13.8 |
| ow: Non-mortgage debt | % YoY | 18.6 | 17.1 | 20.1 | 22.1 | 19.0 | 13.5 | 14.2 | 19.0 |
| Corporate investments | | | | | | | | | |
| Corporate investments @ | % YoY | 16.0 | 23.3 | -0.5 | -6.2 | 3.3 | 10.8 | 4.3 | -1.6 |
| SCBs Corporate debt ^ | % YoY | 12.3 | 12.7 | 10.7 | 11.7 | 22.7 | 13.0 | 3.7 | 22.7 |
| Infrastructure loans | % YoY | 10.9 | 6.1 | 0.6 | 1.6 | 2.9 | 14.5 | 3.6 | 2.9 |
| IIP: Capital goods | % YoY | 6.9 | 8.2 | 10.5 | 5.1 | 8.8 | 1.1 | -1.9 | 7.0 |
| Nominal imports of capital goods | % YoY | 30.0 | 13.2 | 18.3 | -3.6 | 3.1 | 4.3 | 7.2 | -0.2 |
| Manufacturing capacity utilization@ | % | 74.0 | 74.3 | 76.3 | 73.6 | 0.0 | 75.0 | 68.8 | 0.0 |
| Current assessment for production capacity@ | % | 14.3 | 24.6 | 11.6 | 20.1 | 19.3 | 5.0 | 6.6 | 19.7 |
| Expected assessment for production capacity@ | % | 46.1 | 38.4 | 39.4 | 21.5 | 39.5 | 6.1 | 17.8 | 30.5 |
| Corporate bonds@ | % YoY | 8.9 | 11.6 | 7.4 | 10.5 | 9.6 | 16.8 | 8.9 | 9.6 |
| Some other common indicators | | | | | | | | | |
| IIP: Construction ~ | % YoY | 5.3 | 8.8 | 9.1 | 13.2 | 11.6 | 5.1 | 3.2 | 12.4 |
| Cement production | % YoY | 4.9 | 10.1 | 3.7 | 12.7 | 10.2 | 6.1 | 3.8 | 11.5 |
| Steel consumption | % YoY | 14.3 | 11.5 | 17.1 | 10.4 | 19.3 | 5.4 | 5.0 | 14.9 |
| Memo items | | | | | | | | | |
| Total investments (including valuables) | % of GDP | 32.1 | 28.3 | 33.2 | 30.6 | 32.9 | 35.1 | 30.3 | 31.7 |
| GFCF + Change in inventories | % of GDP | 29.7 | 27.3 | 32.4 | 29.9 | 30.6 | 33.3 | 29.0 | 30.3 |
| General government investments* | % of GDP | 4.2 | 3.5 | 6.6 | 5.0 | 5.0 | 3.7 | 4.1 | 5.0 |
| Corporate investments | % of GDP | 14.2 | 13.2 | 12.1 | 11.0 | 12.3 | 16.6 | 13.6 | 12.4 |
| Household investments | % of GDP | 12.1 | 12.3 | 11.7 | 14.8 | 12.6 | 12.3 | 11.3 | 12.9 |
| SCBs Corporate debt | % of GDP | 22.3 | 22.9 | 22.6 | 23.4 | 25.0 | 30.0 | 24.5 | 25.0 |
| Corporate bonds | % of GDP | 16.9 | 16.2 | 15.8 | 16.2 | 16.1 | 13.7 | 17.2 | 15.6 |
| SCBs HH debt | % of GDP | 26.5 | 27.2 | 27.6 | 28.4 | 28.4 | 22.0 | 27.2 | 28.4 |

* Based on data of 26 major states up to Sep'23

\$ Including agricultural, transport operators, trade and personal loans

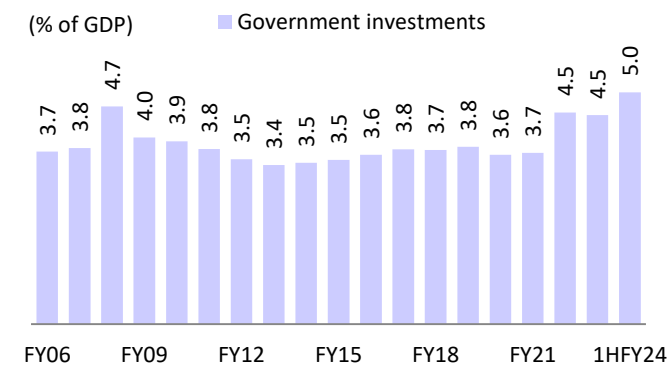
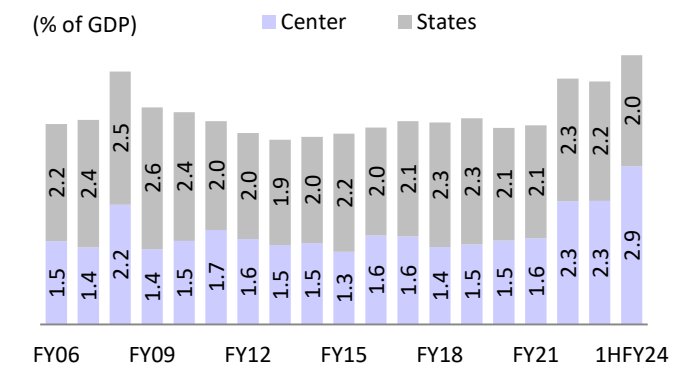
Available from 1QFY11 (% YoY from 1QFY12)

@ Quarterly in frequency, Monthly otherwise

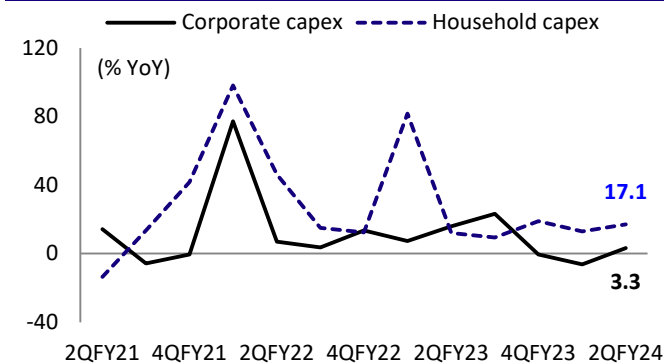
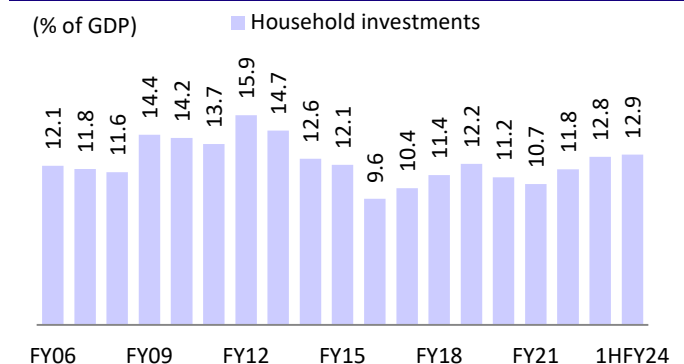
^ SCBs loans excluding household and NBFCs loans

~ Available from Apr'12 (% YoY from Apr'13)

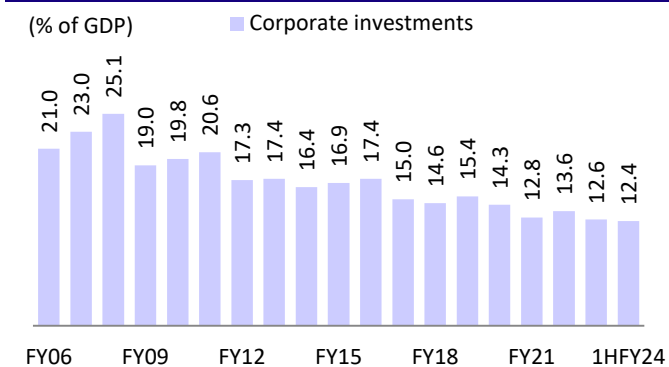
Source: Various national sources, CEIC, MOFSL

Exhibit 4: Government investments surged to 5% of GDP in 1HFY24...**Exhibit 5: ...primarily led by a sharp increase in the Center's capex**

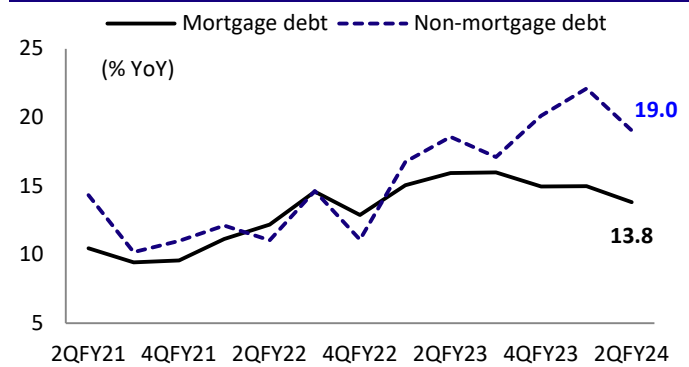
Source: CGA, CAG, CEIC, MOSL

Exhibit 6: Amid decent growth in household investments, corporate investments grew faster after two quarters**Exhibit 7: Household investments at a decade high of 12.9% of GDP in 1HFY24...**

* Almost two-thirds of HH investments are residential real estate

Exhibit 8: ...though corporate capex fell to two-decade low of 12.4% of GDP in 1HFY24

FY23 data is MOFSL estimates

Exhibit 9: Non-mortgage debt continued to grow faster than mortgage debt in 2QFY24

Based on SCBs' exposure

Source: Various national sources, CEIC, MOFSL

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Registration details of group entities.: Motilal Oswal Financial Services Ltd. (MOFSL): INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412 . AMFI: ARN : 146822. IRDA Corporate Agent – CA0579. Motilal Oswal Financial Services Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Insurance, Bond, NCDs and IPO products.

Customer having any query/feedback/ clarification may write to query@motilaloswal.com. In case of grievances for any of the services rendered by Motilal Oswal Financial Services Limited (MOFSL) write to grievances@motilaloswal.com, for DP to dp@grievances@motilaloswal.com.