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Investment Tracker

Investment activity buoyant in Q3 FY2023; central sector infra project completions set to surge in FY2024

JANUARY 2023

Highlights- I

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Five of the 10 investment indicators improved in Oct-Nov 2022 from Q2 FY2023 with a post-monsoon pick-up in construction activity

The other five indicators worsened in this period, partly due to continued base normalisation

New project announcements rose to three-quarter high Rs. 6.6 trillion in Q3 FY2023, one-third of which was led by one mega project on semiconductors

India's investment activity was buoyant in Q3 FY2023, with an expected rise in new project announcements, dominated by a few big ticket-deals, amidst investor meets held by several state governments. Although the private sector accounted for the bulk of the project proposals in Q3 FY2023 as seen in each of the last eight quarters, its share in project completions remained subdued vis-à-vis that of the Government. Based on the available anticipated commissioning dates for central sector infra projects, the value of such projects that are scheduled to be completed in FY2024 is a massive ~Rs. 7.4 trillion (FY2022: Rs. 2.7 trillion). The push to commission such projects that are nearing their final stages of completion, ahead of the General Elections, is likely to augment the growth in gross fixed capital formation (GFCF). This would support the pace of GDP expansion in FY2024, which we peg at ~6.0%, and partly offset the headwinds posed by slowing external demand.

- **Performance of investment-related indicators mixed in Oct-Nov 2022:** Out of the 10 high frequency indicators pertaining to investments, five recorded a YoY deterioration in Q3 FY2023 or Oct-Nov 2022 relative to Q2, partly reflecting the impact of a continued base normalisation and slowdown in external demand. However, the other five indicators, largely related to construction, improved in line with a seasonal pick-up in such activities after the monsoon. Relative to pre-Covid period of 2019, nine indicators posted higher volumes in Oct-Nov 2022.

- **New project announcements surged in Q3 FY2023 led by private sector:** The value of new project announcements expectedly rose to a three-quarter high of Rs. 6.6 trillion in Q3 FY2023, with multiple states holding investor meets during the quarter. However, a few big-ticket deals supported by the GoI's initiatives such as the India Semiconductor Mission and Green Hydrogen/Green Ammonia policy, accounted for the bulk of the total cost of projects that were announced during the quarter, implying that the rise in capex proposals is not yet broad-based. The private sector contributed for a massive ~93% of total proposals in Q3 FY2023, as against ~82% in H1. Notwithstanding the surge in new announcements in Q3 FY2023, the intent to invest may not be immediate given the uncertain global outlook, amidst geo-political tensions, fears of a recession as well as rising global interest rates.

Highlights II

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Housing demand remained healthy in Q3 FY2023 despite rising loan rates

Based on our analysis, the pipeline for commissioning of Central infra projects is estimated at a massive Rs. 7.4 trillion in FY2024

The push to complete projects ahead of General Elections may support investment activity and GDP growth in the next fiscal as long as there are no significant delays

- **Housing demand remained healthy in Q3 FY2023 despite rising home loan rates:** Aggregate home sales volumes in the top seven cities improved by 11.2% on a sequential basis to a record 149.4 mn sft in Q3 FY2023, even as the YoY growth expectedly moderated to 10.8% (+28.3% in Q2 FY2023) on a high base. Absorption has been quite strong in the last five quarters, averaging at 137.3 mn sft, aided by pent-up demand, low home loan interest rates, certain state incentives, flexible working model adopted by corporates due to Covid-19 and healthy job and income growth in the IT/ITES sector.

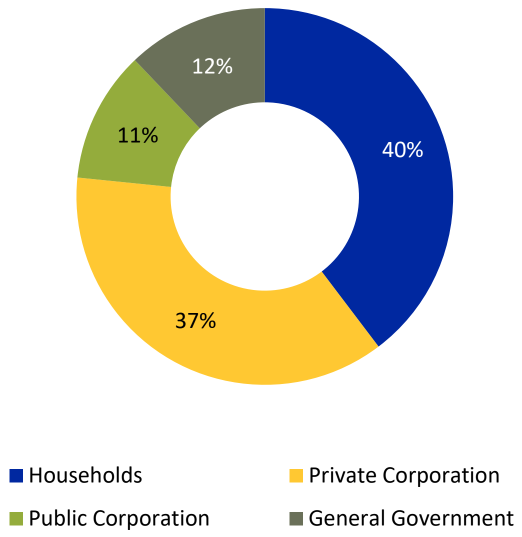
- **Central sector infra project completions set to surge in FY2024:** The value of completed projects rose to a four-quarter high of Rs. 1.5 trillion in Q3 FY2023 from Rs. 1.4 trillion in Q2 FY2023, while trailing the year-ago (Rs. 2.9 trillion) as well as pre-Covid (Rs. 1.7 trillion in Q3 FY2020) levels. Unlike new proposals, completions were led by the government sector, while being concentrated in the transport services segment (including roads, railways, airports, ports). Based on the available anticipated commissioning dates for the outstanding central infra sector projects, the pipeline of such projects that is scheduled to be completed in FY2024 is massive, at ~Rs. 7.4 trillion (completions in FY2022: Rs. 2.7 trillion). The push to commission such projects, that are nearing their final stages of completion, ahead of the General Elections, is likely to augment the growth in GFCF, and support the pace of India’s GDP expansion in FY2024, which we peg at ~6.0%.

- **Frontloaded capex in FY2024 by GoI and states may further boost investment demand:** The GoI’s capex growth (+63%) has been quite healthy during Apr-Nov 2022, while the aggregate capital outlay of 24 state governments has risen at a subdued pace (+10.2%) vis-à-vis the expansion embedded in the FY2023 BE (+35%). We expect the GoI to raise its capex by double-digits to Rs. 8.5-9.0 trillion in FY2024 from the Rs. 7.5 trillion expected in FY2023. The budgeted target for the states’ for FY2023 appears set to be missed given the trends for 8M FY2023, thereby impeding an assessment of a realistic target for FY2024. Overall, we believe that front-loaded capex by the GoI and the States in FY2024 would also play an important role in offsetting the headwinds on account of a slowing external demand.

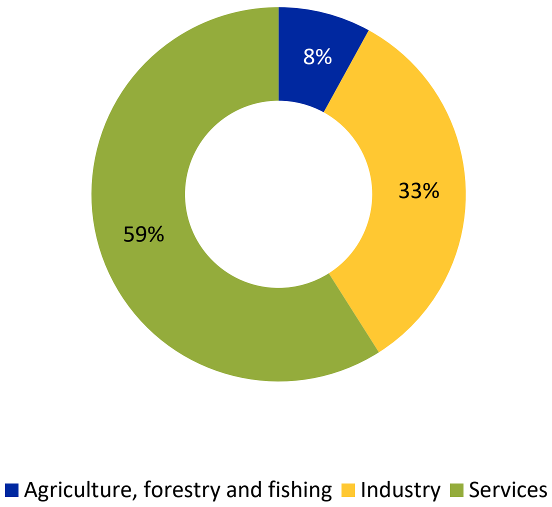
Investment demand in India

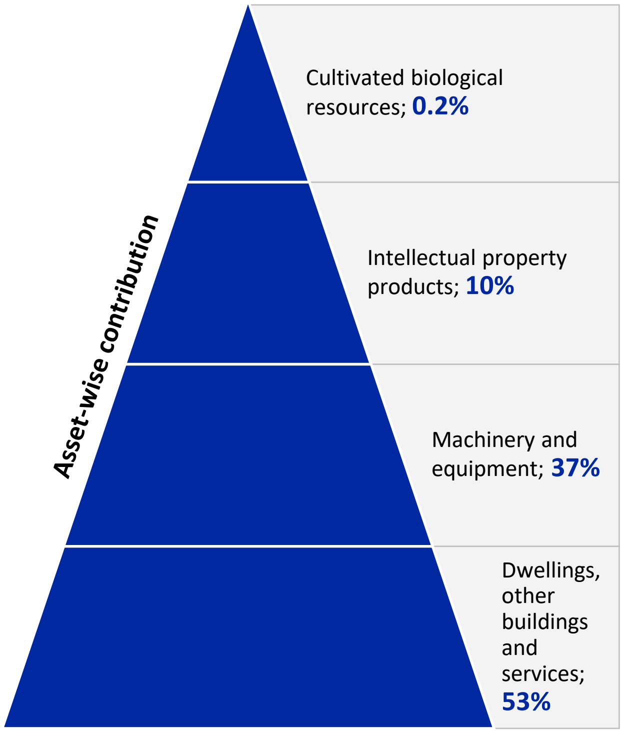
Contribution to Gross Fixed Capital Formation – based on Ownership, Sector and Asset

By Ownership (FY2012-21)



By Sectors (FY2012-21)





Source: ICRA Research

Trends in investment demand in India

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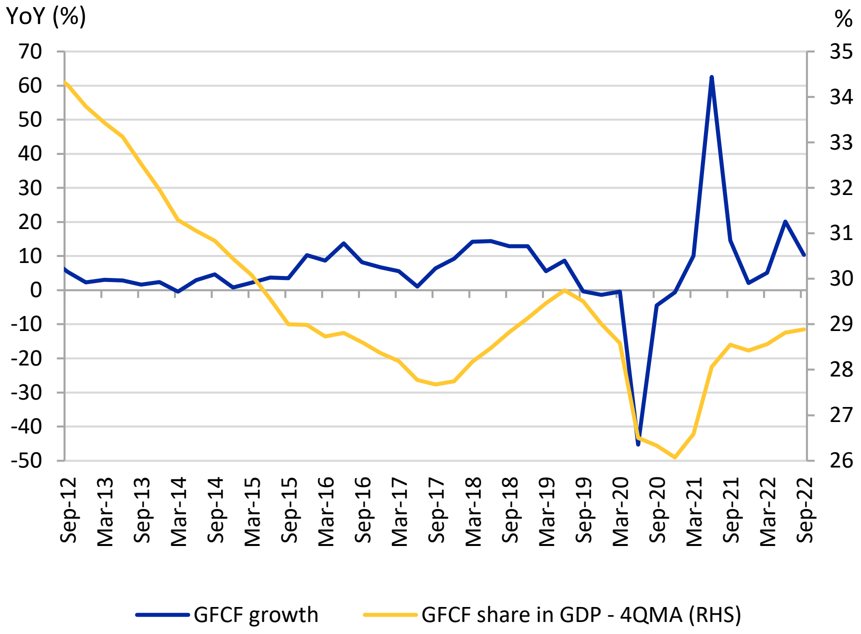
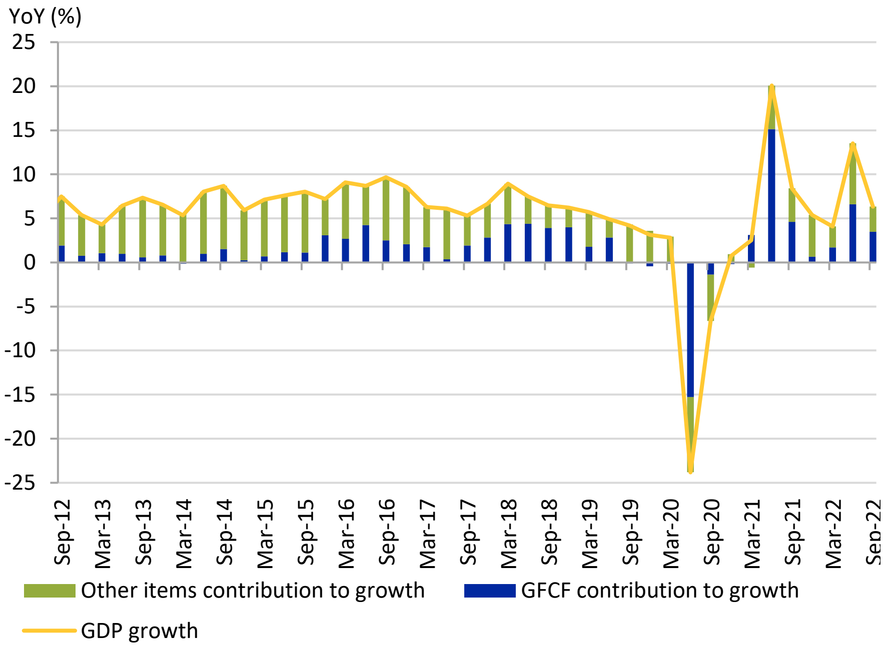
EXHIBIT: YoY growth in real GFCF and share of nominal GFCF in nominal GDP



Source: National Statistical Office (NSO); CEIC; ICRA Research

EXHIBIT: GDP growth and contribution of GFCF and non-GFCF to GDP growth



Source: NSO; CEIC; ICRA Research

Trends in High Frequency Indicators for Investments

YoY performance of most investment-related indicators improved in Nov 2022 vis-à-vis Oct 2022, largely on account of shift in festive season

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EXHIBIT: Heatmap of investment-related high frequency indicators

YoY (%)	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Infra & construction goods^ output	6.7	4.0	18.4	9.4	4.8	3.0	7.7	1.1	12.8	NA
Cement production	9.0	7.4	26.2	19.7	0.7	2.1	12.4	-4.3	28.6	
Finished steel consumption	0.7	1.8	21.3	6.4	13.0	14.3	11.7	11.0	12.3	8.2
Capital goods^ output	2.4	12.0	53.3	28.6	5.1	4.3	11.4	-1.7	20.7	NA
Total CV registrations	11.3	48.8	269.5	78.9	26.9	27.9	28.0	31.6	40.0	16.4
SCB: Infrastructure credit	9.1	10.2	9.5	9.5	11.1	11.0	10.9	10.9	10.5	
Centre's capex	429.9	67.5	77.8	40.1	98.5	0.5	57.5	176.5	87.1	
States' capital outlay*	13.4	-24.6	-5.1	-6.2	26.4	51.8	-0.6	-7.8	40.4	NA
States' stamp duty collections*	22.0	46.8	246.3	50.7	11.6	14.9	14.1	-4.1	17.7	
Engineering goods imports ($ terms)	5.0	15.9	26.1	18.7	34.7	38.4	34.3	14.5	20.1	
Engineering goods exports ($ terms)	17.8	21.3	12.6	2.6	-2.6	-14.1	-12.2	-20.9	-1.9	-11.9

YoY growth; sequential pickup	YoY growth; sequential dip	YoY growth; no sequential change	YoY contraction; sequential pickup	YoY contraction; sequential dip

*NA: Not Available; ^As per IIP data; *States' capex and stamp duty collections data is for 24 states except Assam, Manipur, Mizoram, and Goa; Source: NSO; Joint Plant Committee (JPC); Ministry of Road Transport and Highways (MoRTH); RBI; CGA; Ministry of Commerce, GoI; CEIC; ICRA Research*

Growth in capital goods output improved in Oct-Nov 2022; engineering goods' exports lagged imports during this period amidst flagging external demand

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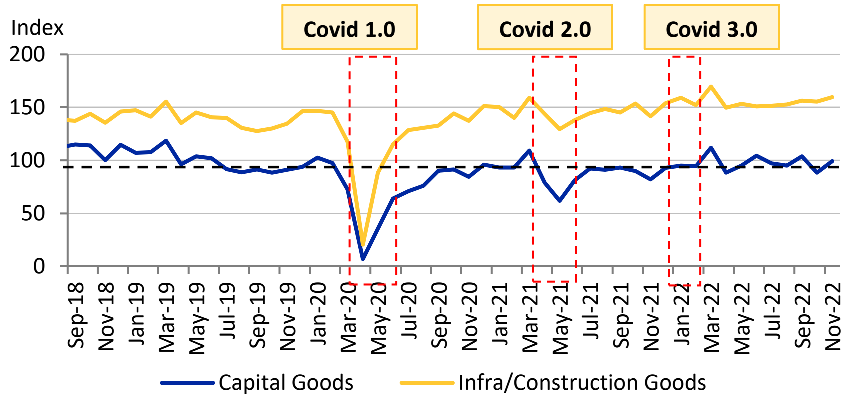
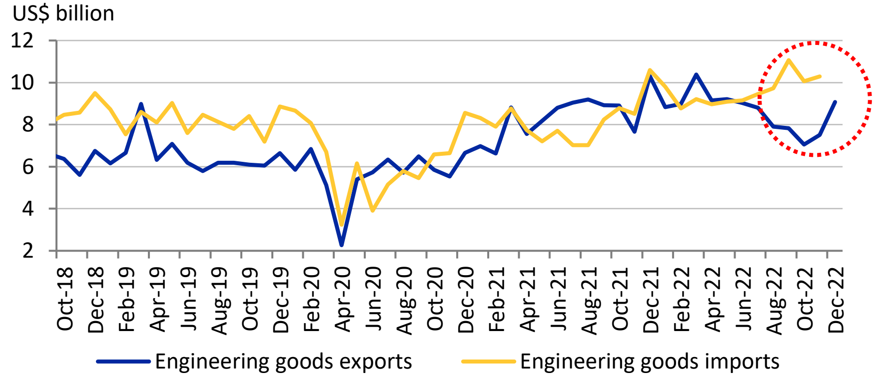
EXHIBIT: Capital goods and Infrastructure/construction goods^ output



^As per IIP data; Source: NSO; CEIC; ICRA Research

EXHIBIT: Engineering goods* exports and imports



**Transport equipment, iron & steel, metal products, machine tools, electrical and non-electrical machinery, project goods, etc.; Engineering goods imports data is not available for Dec 2022 yet; Source: Ministry of Commerce, GoI; CEIC; ICRA Research*

- The YoY growth in capital goods and infra/construction output rose to 9.0% (+6.9% in Q2 FY2023) and 6.7% (+5.2% in Q2 FY2023), respectively, during Oct-Nov 2022, boosted by a low base as well as post-monsoon pick-up in construction activities. The capital goods index rose above the average reading for the base year (2011-12) in Sep 2022 (103.9), before falling back to sub-100 level in Oct-Nov 2022 (93.7).
- The YoY contraction in India's engineering goods exports widened to 12.0% in Q3 FY2023 from 9.7% in Q2 FY2023, reflecting the slowdown in external demand. Notably, engineering goods imports recorded a moderation in YoY performance (to +17.7% during Oct-Nov FY2023 from +35.7% in Q2 FY2023), partly reflecting the impact of the earlier onset of festive season in Oct 2022 vis-à-vis 2021.
- Consequently, India recorded a deficit of US$5.8 billion in Oct-Nov FY2023 on account of higher engineering goods imports. This was significantly higher than the deficit of US$0.7 billion recorded in Oct-Nov FY2022, and also exceeded the deficit of US$3.5 billion seen in Oct-Nov FY2020.

YoY growth in commercial vehicles (CV) registrations rose in Q3 FY2023; infra credit growth eased slightly in Oct-Nov 2022, relative to Q2 FY2023

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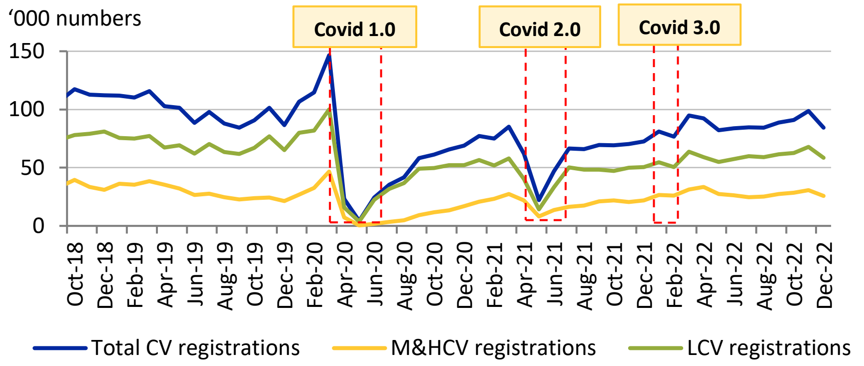
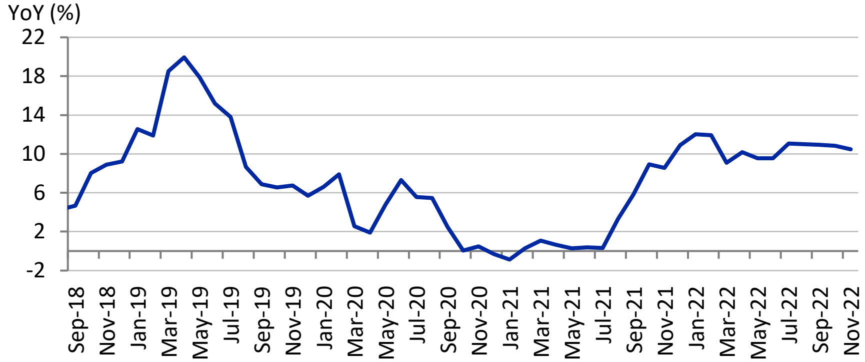
EXHIBIT: Trends in CV registrations



Note: For comparability analysis across different periods, we have removed newly issued data on Andhra Pradesh and Madhya Pradesh; Data on Lakshadweep and Telangana is not available; Source: Vahan, ICRA Research

- The YoY growth in CV registrations rose slightly to 29.2% YoY in Q3 FY2023 (+8.3% in Q3 FY2022) from 27.6% in Q2 FY2023 (+49.3% in Q2 FY2022), led by a favourable base effect. However, registrations trailed the pre-pandemic levels of Q3 FY2020, albeit by a marginal 1.6% in that quarter.
- In FY2023, ICRA expects domestic CV sales volumes to grow by ~18-20%, driven by overall improvement in economic situation, and demand from increased infrastructure spending, mining activities as well as last-mile transportation.

EXHIBIT: YoY trends in infrastructure credit growth



Infra credit includes power, telecom, roads, airports, ports, railways and other infra; Source: RBI; ICRA Research

- The YoY growth in infrastructure credit moderated marginally to 10.7% in Oct-Nov 2022 (+6.5% in Oct-Nov 2021) from 11.0% in Q2 FY2023 (+2.3% in Q2 FY2022).
- This was led by a deterioration in power (to +7.6% from +9.1%), roads (to +13.6% from +15.0%), and railways (to -17.1% from -9.3%).
- Incremental infrastructure credit stood at Rs. 405.9 billion during Apr-Nov FY2023, significantly higher than the Rs. 230.3 billion in Apr-Nov FY2022.

YoY performance was mixed across investment-related indicators in Q3 FY2023 relative to Q2 FY2023

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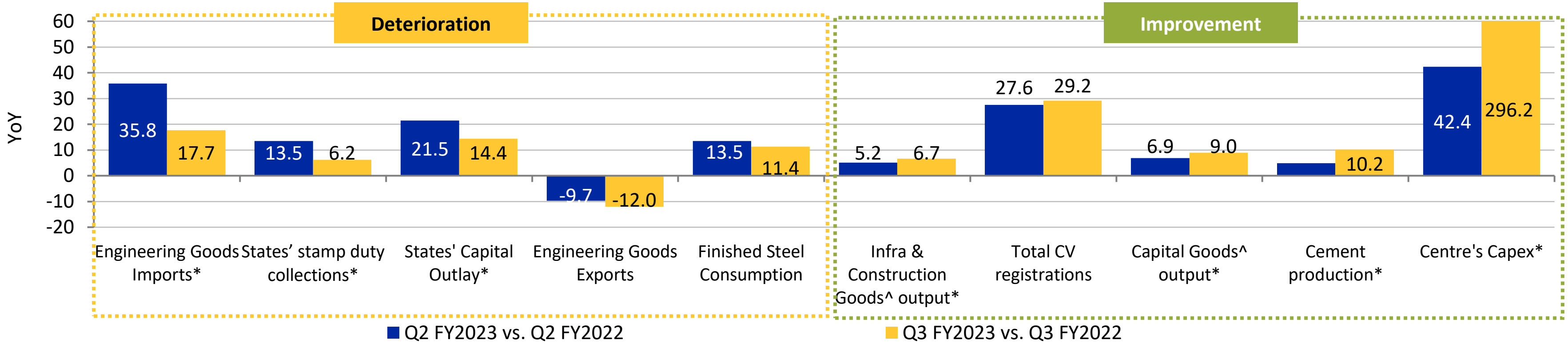
EXHIBIT: YoY Performance of investment related indicators



**Data for Q3 FY2023/FY2022 is for Oct-Nov 2022/2021 respectively, as Dec 2022 data is not available for all indicators; States' capital outlay and stamp duty collections data is for 24 states except Assam, Manipur, Mizoram, and Goa; ^As per IIP data; Source: NSO; JPC; MoRTH; RBI; CGA; Ministry of Commerce, GoI; CEIC; ICRA Research*

- To nullify the impact of shift in festive calendars in 2021 and 2022, we have assessed the average growth performance of indicators related to the investment space in Q3 FY2023 or Oct-Nov 2022, relative to Q2 FY2023 in YoY terms.
- The trend continues to be mixed in Q3 FY2023 so far, with half of the 10 indicators witnessing a deterioration in Q3 FY2023 relative to Q2 FY2023, including exports and imports of engineering goods, states' stamp duty collections and their capital outlay, as well as finished steep consumption. This partly reflects the impact of the slowdown in external demand on India's exports, as well as the continued base normalisation post Covid 2.0.
- On the contrary, the other five indicators showed a YoY improvement in Q3 FY2023, relative to the previous quarter, including infra/and construction output, Centre's capex, cement production and CV registrations, benefitting from the seasonal pick-up in construction activities and the resultant rise in demand for the inputs.

Nevertheless, most such indicators exceeded pre-Covid levels in Q3 FY2023

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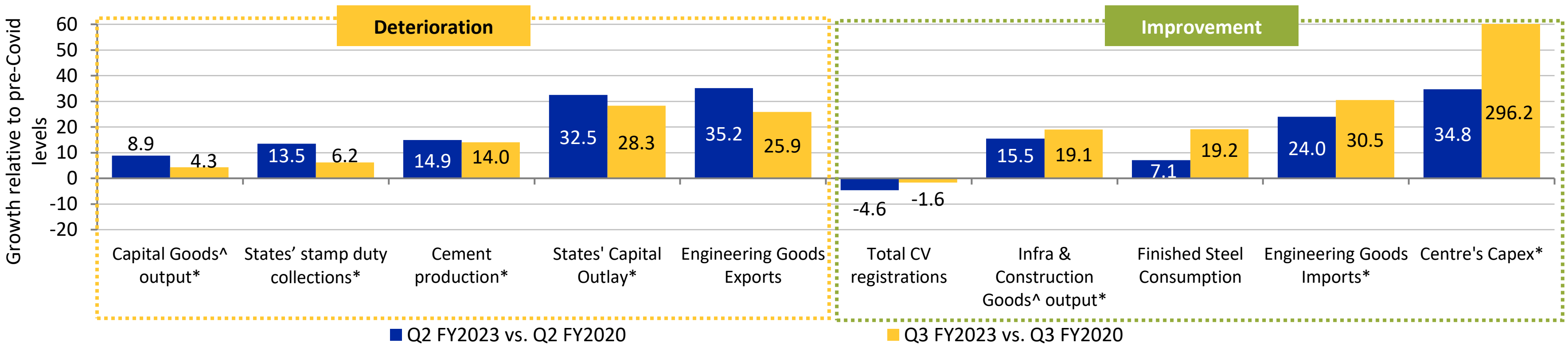
EXHIBIT: Performance of investment related indicators related to pre-Covid levels (%)



**Data for Q3 FY2023/FY2020 is for Oct-Nov 2022/2019 respectively, as Dec 2022 data is not available for all indicators; States' capital outlay and stamp duty collections data is for 24 states except Assam, Manipur, Mizoram, and Goa; ^As per IIP data; Source: NSO; JPC; MoRTH; RBI; CGA; Ministry of Commerce, GoI; CEIC; ICRA Research*

- Encouragingly, all of the investment-related indicators, except CV registrations (-1.6% in Q3 FY2023 vs. Q3 FY2020) exceeded their respective pre-Covid volumes in Q3 FY2023.
- Additionally, the growth performance of five of the 10 indicators improved during Q3 FY2023 compared to Q2 FY2023, relative to the pre-Covid levels, whereas the other five deteriorated (capital goods output, states' stamp duty collections, cement production, states' capital outlay, and engineering goods exports).

Seasonally adjusted CU at three-year high in Q1 FY2023; sustainability of demand post festive season to guide timing of capacity expansion

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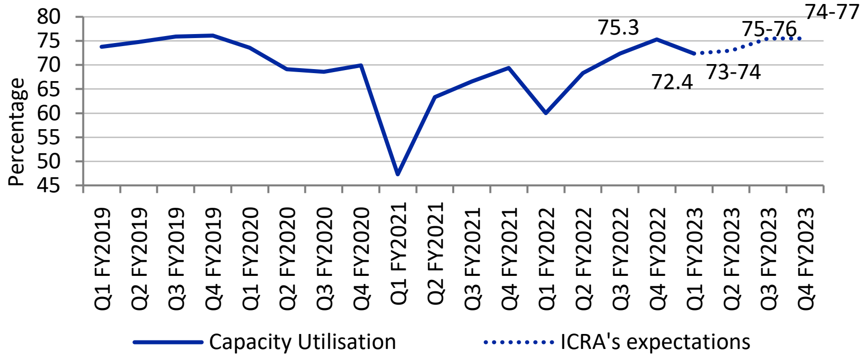
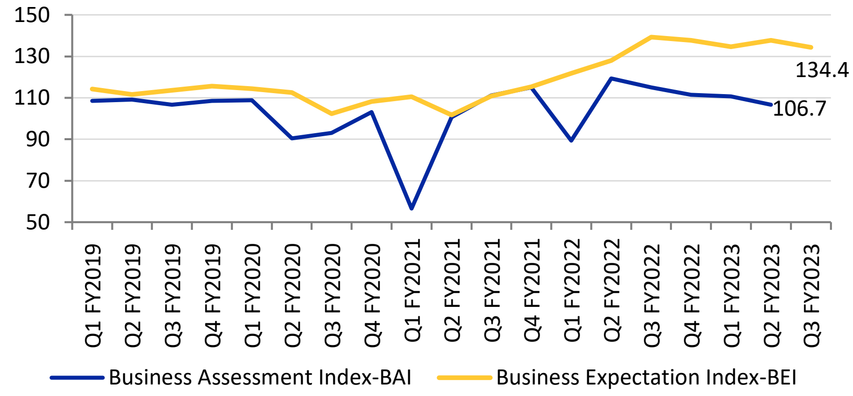
EXHIBIT: Trends in unadjusted Capacity Utilisation (CU)



Dotted line represents ICRA's expectations; Source: RBI; ICRA Research

EXHIBIT: Business Assessment Index (BAI) and Business Expectation Index (BEI) of the manufacturing sector in RBI's Industrial Outlook Survey

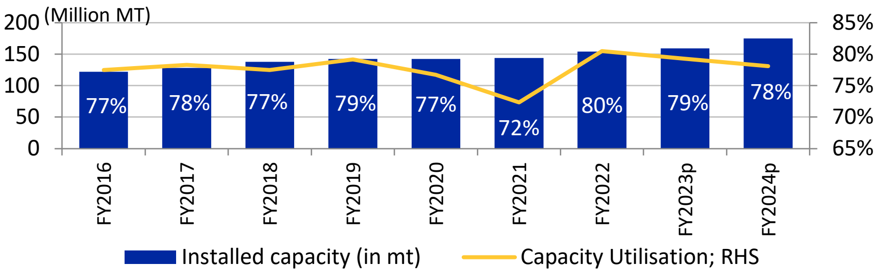


Source: RBI; ICRA Research; Overall, 1234 companies responded in Sept 2022 round of the survey

- Capacity utilisation levels fell to 72.4% in Q1 FY2023 from 75.3% in Q4 FY2022, partly reflecting seasonal trends. As per the RBI, seasonally adjusted CU improved from 73.0% in Q4 FY2022 to 74.3% in Q1 FY2023 - its highest level in three years.
- Additionally, business sentiments waned, as the BAI moderated to 106.7 in Q2 FY2023 from 110.1 in the previous quarter. While remaining high, the BEI moderated to 134.4 in Q3 FY2023 from 137.7 in Q2 FY2023, led by the rise in input cost pressures.
- **Capacity utilisation levels are likely to have rebounded to ~75-76% by Q3 FY2023, with a recovery in the domestic demand for goods during the festive season, amidst the ongoing slowdown in exports owing to fears of a global recession.**
- **The moderation in commodity prices augurs well for corporate margins and is likely to boost business sentiments and support investment demand in the near term. However, the sustainability of demand post the festive season will impact the CU in Q4 FY2023, influencing the pace of capacity expansion by the private sector in various sectors.**

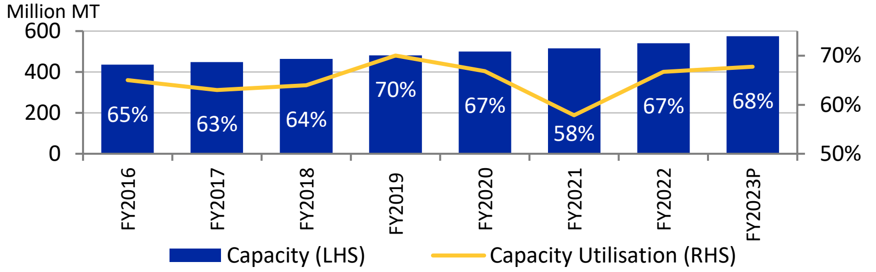
Capacity utilisation trends across sectors

EXHIBIT: Steel CU may slip to 79% in FY2023, with capacity addition of 4.8 mtpa lined up for this fiscal likely to exceed incremental steel demand



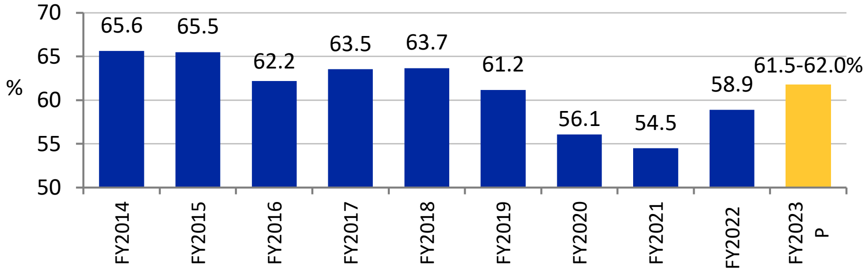
P: Projected; Source: Ministry of Steel; JPC; ICRA Research

EXHIBIT: Cement CU likely to remain moderate at ~68% in FY2023 on an expanded base, despite an expected increase in demand by ~8%



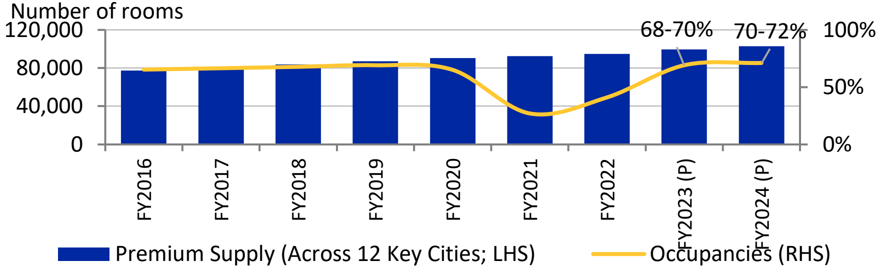
P: Projected; Source: Company Announcements and Media Releases, Company Annual Reports, Cement Manufacturers Association, Office of Economic Advisor, ICRA estimates

EXHIBIT: All-India PLF for thermal power plants set to rise to 61.5-62.0% in FY2023 amidst healthy demand growth



P: Projected; Source: CEA; ICRA Research

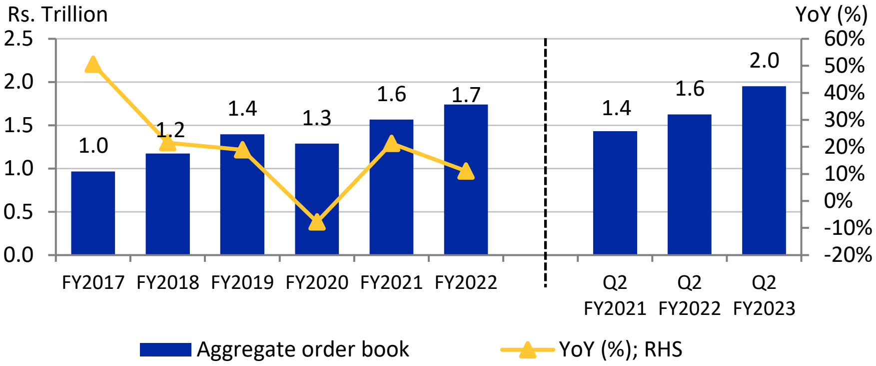
EXHIBIT: Hotel occupancies may rise to 68-70% in FY2023 from 40-42% in FY2022, aided by leisure and MICE demand and recovery in business travel



P: Projected; Source: ICRA Research

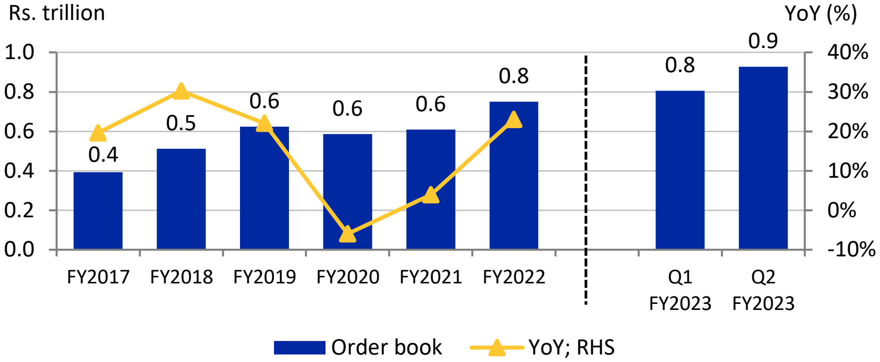
Strong order book pipeline of construction firms to support investment demand, but timely execution remains key

EXHIBIT: Trends in order book of construction companies*



**sample of 12 construction companies: Ahluwalia Contracts, Ashoka Buildcon, Capacite Infra, Dilip Buildcon, H.G. Infra, ITD Cementation, J Kumar Infraproject Ltd, JMC Projects (India) Ltd, KNR Construction Ltd, NCC Limited, PNC Infratech, PSP Projects Ltd.; P:Projected; Source: Annual reports and investor presentations of companies, ICRA Research*

EXHIBIT: Trends in order book and intake of capital goods-EPC players

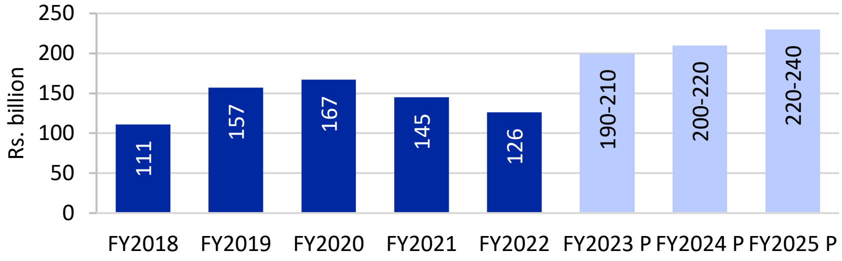


^Includes ICRA's sample of five Engineering, Procurement and Construction (EPC) companies – KEI, Thermax, KEC, IHEL, Kalpataru Power; Source: ICRA research

- The order book of construction companies rose by a healthy ~20% to Rs. 2.0 trillion in Q2 FY2023 from Rs. 1.6 trillion in Q2 FY2022, reflecting the robust demand in various end-user industries coupled with a rise in capex by the Central Government. Sectors such as transportation (47%; roads, metro, airport, bridges, flyovers) and buildings (31%; residential, commercial, mixed use, industrial) accounted for the bulk of the order book in Q2 FY2023.
- Moreover, the order book of capital goods companies (EPC) in ICRA's sample stood at a healthy Rs. 0.9 trillion in Q2 FY2023, surpassing the FY2017-22 levels.
- **Given the Government's thrust towards infrastructure development, in the backdrop of large investment outlay across all key segments (roads, railways, airports, etc.), the order book pipeline for the construction and capital good sectors is strong. Nevertheless, the timely execution of these projects remains crucial.**

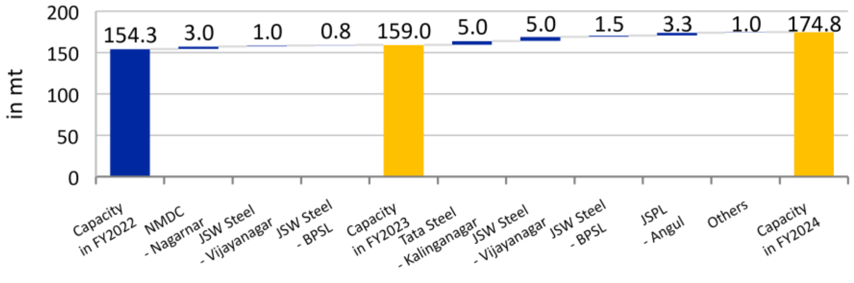
Capacity expansion plans announced by certain sectors over next few years

EXHIBIT: Capex by PV OEMs estimated to be nearly Rs. 200-230 billion per annum over the next 3-4 years



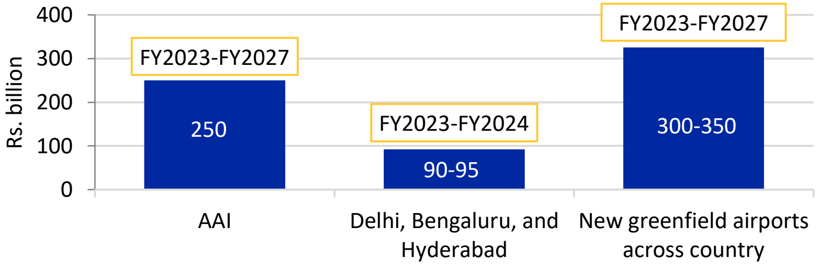
Source: ICRA Research; SIAM; Sample set of 6 leading PV OEMs

EXHIBIT: Domestic steel capacity addition plans likely to gather pace during FY2023-FY2024



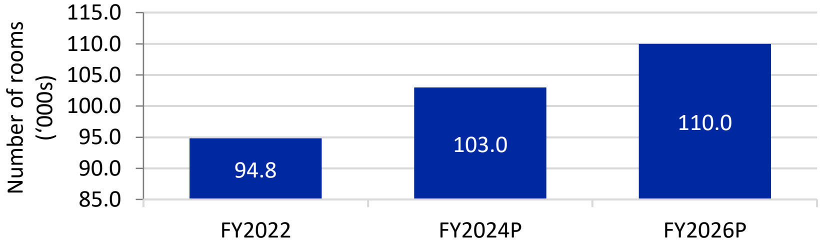
Source: Ministry of steel; ICRA Research

EXHIBIT: Investments over Rs. 850 billion are in the pipeline to develop airport infrastructure during the period FY2023-FY2027



Source: AAI; ICRA Research

EXHIBIT: Estimated supply addition for hotels to rise steadily over the period FY2022-26

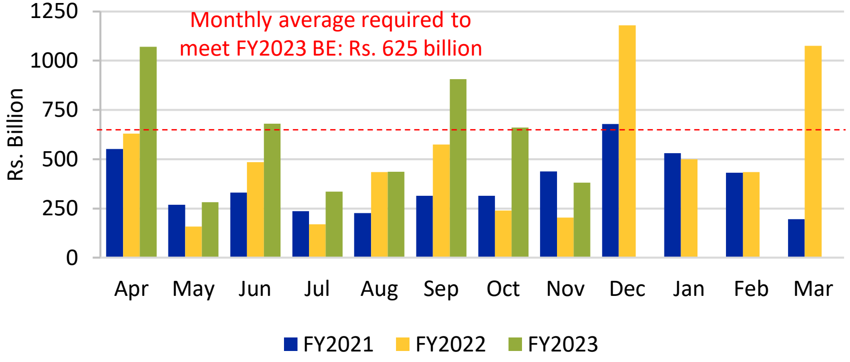


Source: ICRA Research; supply addition estimated in Q4 of a financial year is factored in the pipeline of the next financial year for analytical purposes

Trends in Government, Corporate and Household Investments

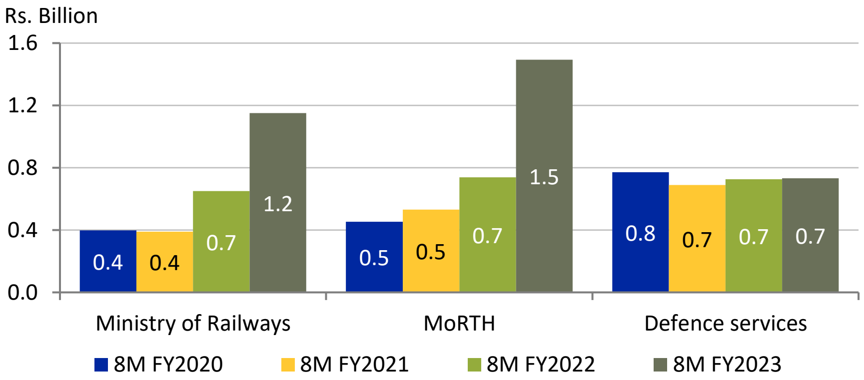
Government capex: GoI's capex target for FY2023 unlikely to be missed; offtake of states' interest free capex loan during Dec-Mar FY2023 remains crucial

EXHIBIT: Centre's capital expenditure



Source: CGA, GoI; ICRA Research

EXHIBIT: Capital expenditure by Ministry of Railways, Road Transport and Highways, and Defence



Source: CGA, GoI; ICRA Research

- During Apr-Nov FY2023, the GoI's capex expanded by a robust ~63% YoY to Rs. 4.5 trillion (~60% of FY2023 BE), reflecting the trend displayed by MoRTH and Ministry of Railways, although the sharp rise in former may partly have been on account of the NHAI spending being brought under the GoI's budget in FY2023.
- While the YoY growth remains high, capital spending has averaged around Rs. 559 billion/month, ~11% lower than the required monthly average of Rs. 625 billion to meet the budgeted target, with a slow pickup in the disbursals under the interest free capex loan scheme for the states.
- **While the likelihood that the capex budgeted target for FY2023 will be missed remains low, the offtake of the states' interest free capex loan scheme during Dec-Mar FY2023 remains crucial.**
- **We expect the GoI to raise its capex by double-digits to Rs. 8.5-9.0 trillion in the FY2024 Budget from the Rs. 7.5 trillion expected in FY2023** *{Refer to ICRA's publication, GoI likely to peg fiscal deficit at 5.8% of GDP in FY2024, published in January 2023}.*

Government capex: Aggregate capital outlay of 24 states during Apr-Nov 2022 rose by ~10% on a YoY basis

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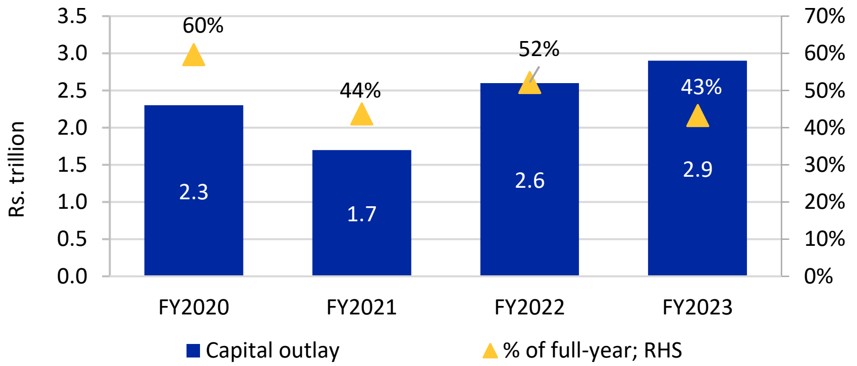
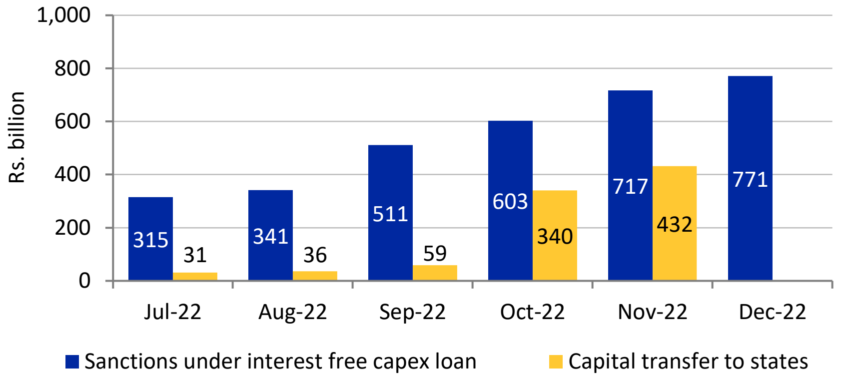
EXHIBIT: Capital outlay of 24 states* during Apr-Nov FY2020-23



**The sample comprises of 24 states except Assam, Manipur, Mizoram, and Goa; For computing % of full-year, we have used Actuals for FY2020 and FY2021, Prov. for FY2022 and BE for FY2023; Source: Comptroller and Auditor General of India; ICRA Research*

EXHIBIT: Sanctions under interest free capex loan and capital transfers to states by the Centre

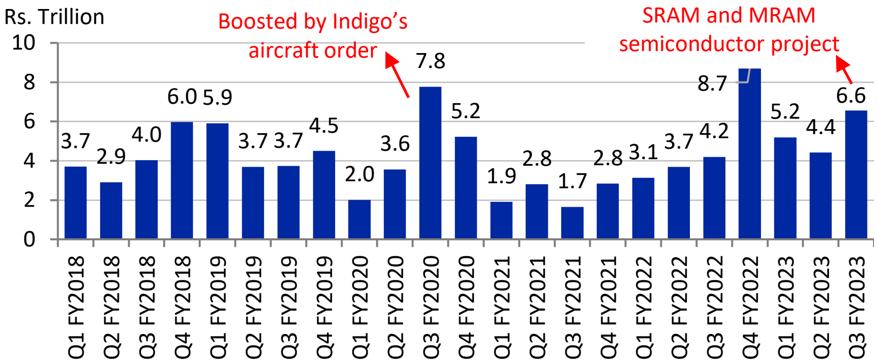


**Data on interest free capex loan for Apr-June 2022 is not available; Source: DOE, Finance Ministry, GoI; ICRA Research*

- The aggregate capital outlay of 24 states rose by 10.2% to Rs. 2.9 trillion during Apr-Nov FY2023 from Rs. 2.6 trillion during Apr-Nov FY2022. However, the YoY growth was modest when compared to the pace targeted in their FY2023 BE (+35%), and the outlay in this period accounted for only 43% of the FY2023 BE.
- The YoY expansion in capital outlay of these states moderated to 14.4% in Oct-Nov FY2023 from 21.5% in Q2 FY2023, amidst the release of a double tranche of monthly tax devolution by the Centre amounting to Rs. 1.2 trillion each in August 2022 and November 2022.
- Out of the Rs. 1.0 trillion budgeted under the “special assistance to states for capital investment” for FY2023, ~77% or Rs. 771 billion has been sanctioned by the Centre to the eligible states till Dec 2022. Notably, the outgo under this scheme recorded a welcome rise to Rs. 432.2 billion by end-Nov 2022.
- The budgeted target for the states for these 24 states in the FY2023 BE (Rs. 6.7 trillion) appears set to be missed given the trends for 8M FY2023 (43% of BE), thereby impeding an assessment of a realistic target for FY2024.

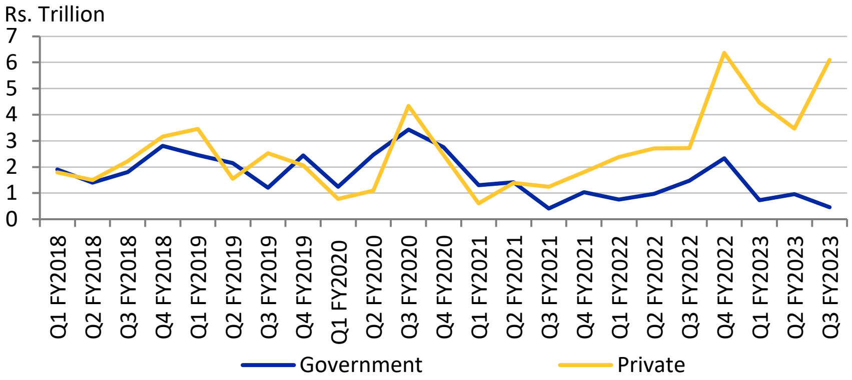
Corporate capex: New investment proposals surged to three-quarter high of Rs. 6.6 trillion in Q3 FY2023, with rebound in private sector contribution

EXHIBIT: Trends in new project announcements



Data as on Jan 24, 2023; Source: CMIE; ICRA Research

EXHIBIT: Trends in new project announcements by ownership

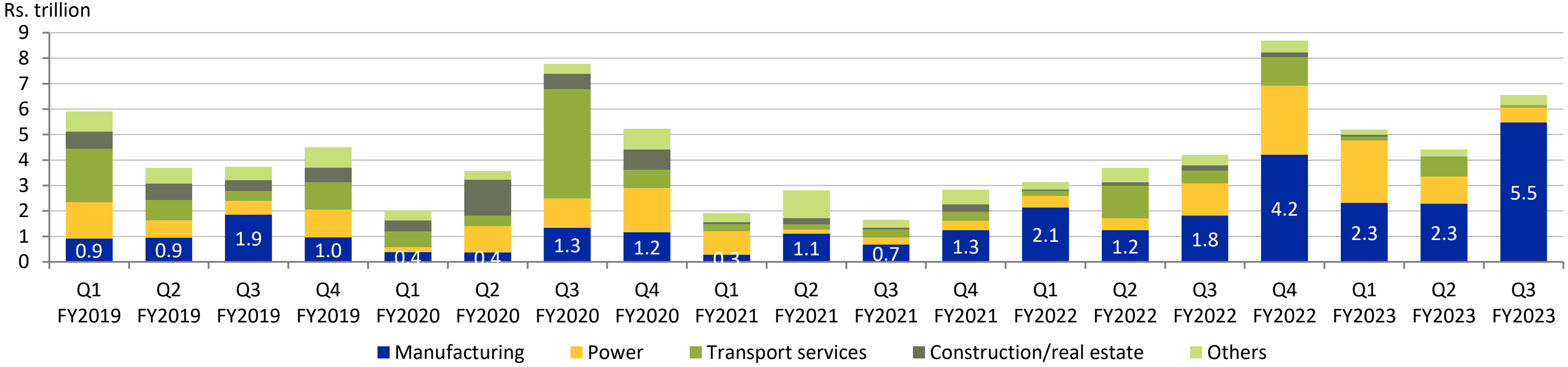


Data as on Jan 24, 2023; Source: CMIE; ICRA Research

- The value of new project announcements rose markedly to a three-quarter high of Rs. 6.6 trillion in Q3 FY2023 from Rs. 4.4 trillion in Q2 FY2023, while remaining lower than the Rs. 7.8 trillion seen in Q3 FY2020. Both, in Q3 of FY2020 (Indigo aircraft order worth Rs. 2.4 trillion) and FY2022 (SRAM and MRAM's semiconductor project worth Rs. 2.0 trillion), a few big-ticket deals boosted the overall trend in new announcements.
- The private sector continued to dominate new investment proposals (in value terms) for the ninth consecutive quarter in Q3 FY2023, with the share in total announcements remaining elevated at ~92% in Q3 FY2023 as against ~82% in Q1-Q2. This was appreciably higher than the levels seen in the historical period (50% during FY2002-2021) and FY2022 (74%).
- New proposals by the Government halved to Rs. 0.5 trillion in Q3 FY2023 from Rs. 1.0 trillion in Q2 FY2023, and also remained considerably lower than the respective year ago (Rs. 1.5 trillion in Q3 FY2022) and pre-Covid (Rs. 3.4 trillion in Q3 FY2020) quarters.

Corporate capex: Manufacturing was key driver of new investment proposals in Q3 FY2023; few large projects accounted for bulk of total cost of new projects

EXHIBIT: Trends in sectoral composition of new project announcements



Data as on Jan 24, 2023; Source: CMIE; ICRA Research

- More than 80% of the investment proposals in Q3 FY2023 were concentrated in the manufacturing sector, amounting to Rs. 5.5 trillion, followed by the power sector at Rs. 0.6 trillion (8.8%). New project announcements were largely subdued in other sectors.
- During the Make in Odisha Conclave 2022 held during Nov-Dec 2022, an investment of Rs. 2.0 trillion into a semiconductor plant in Odisha was announced promoted by the UK-based SRAM & MRAM group. This, along with other investments announced earlier in a similar space can be partly attributed to the Government's India Semiconductor Mission initiative. Besides, as many as six green hydrogen and ammonia projects were also during Q3 FY2023, with a total cost of Rs. 1.8 trillion, also driven by government initiatives such as the Green Hydrogen/Green Ammonia policy that was announced in August 2021.
- Overall, a small number of projects in the manufacturing sector accounted for bulk of the total cost of projects that were announced during Q3 FY2023.

Corporate capex: Number of project announcements declined in 2022, even as private capex surged in value terms

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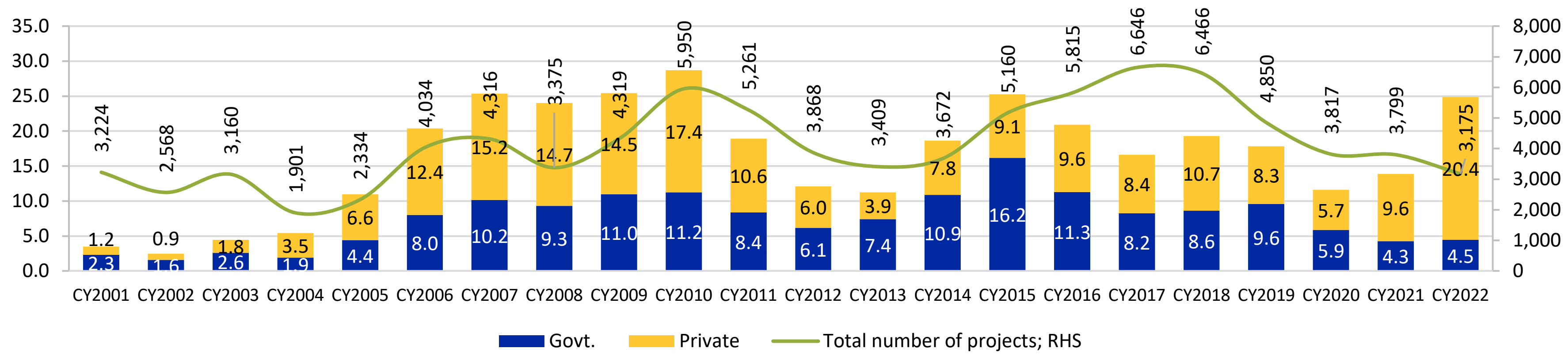
EXHIBIT: New investment project announcements (Rs. Trillion and number of projects) on a CY basis



Source: CMIE; ICRA Research

- The total new project announcements, in value terms, have risen considerably to a seven-year high of Rs. 24.9 trillion in CY2022 from the subdued Rs. 11.6 trillion and Rs. 13.9 trillion, respectively, in CY2020 and CY2021, benefitting from the widening of economic recovery after the disruptions caused by the Covid-19 pandemic including the recovery in domestic demand, deleveraging of balance sheets by corporates, etc.
- The trend was dominated by announcements made by the private sector, with investment doubling to Rs. 20.4 trillion in CY2022 from Rs. 9.6 trillion in CY2021, while investments by the Government remaining subdued at Rs. 4.5 trillion in CY2022.
- Even though the private capex surged in value terms, the total number of projects announced in CY2022 dipped to a 17-year low of 3,175 in CY2022 (o/w Private: 1,862, Govt: 1,313), indicating that the year entailed big ticket deals by private sector.

Corporate capex: While private sector continued to dominate in announcement of new projects, its share in completions remained low in Q3 FY2023

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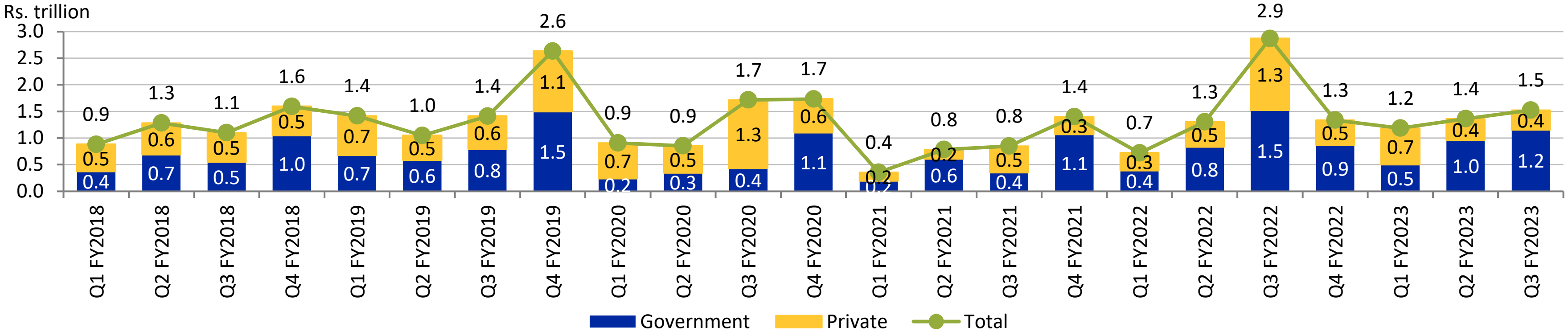
EXHIBIT: Quarterly trend in project completions



Data as on Jan 24, 2023; Source: CMIE; ICRA Research

- Early data indicates that the value of completed projects has risen gradually to a four-quarter high of Rs. 1.5 trillion in Q3 FY2023 from the Rs. 1.4 trillion and Rs. 1.2 trillion recorded in Q2 FY2023 and Q1 FY2023, respectively. However, it trailed the levels seen in the year-ago (Rs. 2.9 trillion) as well as pre-Covid (Rs. 1.7 trillion in Q3 FY2020) quarters.
- Project completions have been largely driven by the public sector since Q4 FY2020 when the Covid-19 pandemic had started, with its share in total completions exceeding that of private sector in eight of the 12 quarters till Q3 FY2023.
- In Q3 FY2023, completions by the Government stood at Rs. 1.2 trillion accounting for ~75% of the total amount, whereas that by the private sector were quite low, at Rs. 0.4 trillion, similar to the levels seen in Q2 FY2023.
- Nevertheless, subsequent data may reveal meaningful upward revisions in project completions, as seen in the past.

Corporate capex: Transport infrastructure projects dominate project completions for sixth straight quarter in Q3 FY2023

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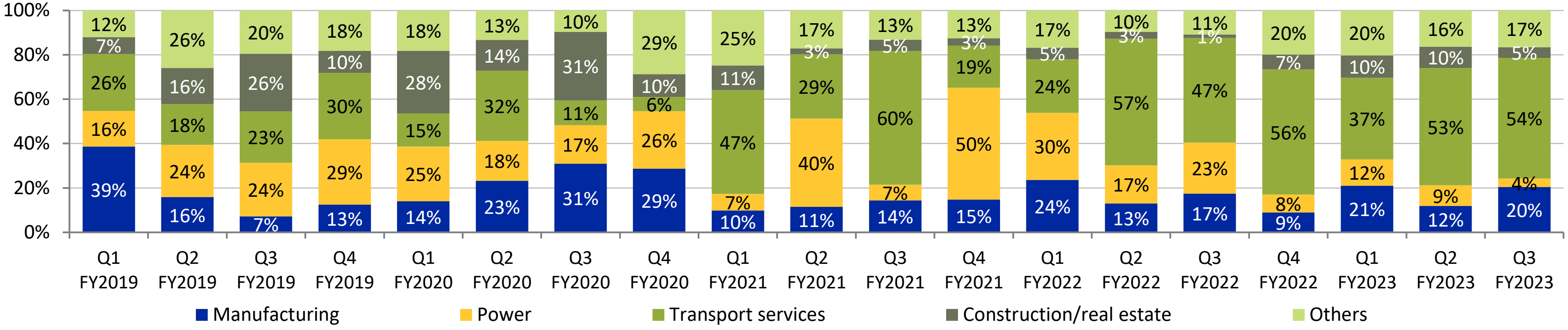
EXHIBIT: Trends in sectoral composition of project completions (% share)

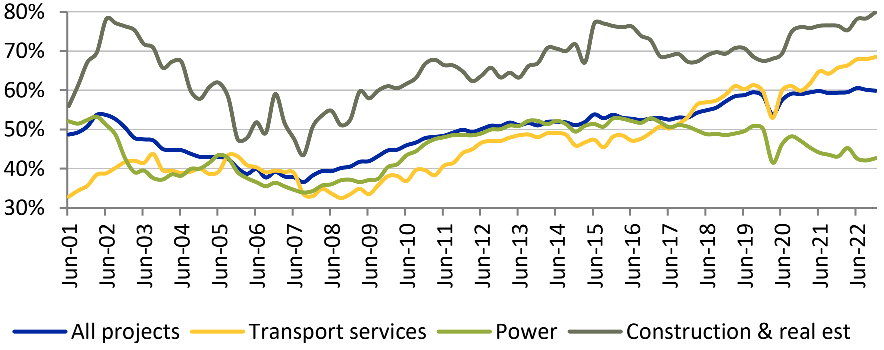


Data as on Jan 24, 2023; Source: CMIE; ICRA Research

- Mirroring the trend seen in the previous five quarters, project completions were largely concentrated in the transport services, which includes infrastructure projects such as roads, railways, airports and ports. The share of this segment has improved slightly to 54% in Q3 FY2023 from 53% in Q2 FY2023 and 47% in Q3 FY2022.
- The share of manufacturing sector has risen to 20% in Q3 FY2023 from 12% in Q2 FY2023 and 17% in Q3 FY2022.
- In contrast, the share of power sector in project completions dipped to just 4% in Q3 FY2023, well below the levels seen in the past years.
- Moreover, the share of "construction and real estate" sector has remained consistently below 10% in the post-pandemic period, even as the order books of construction companies are robust.

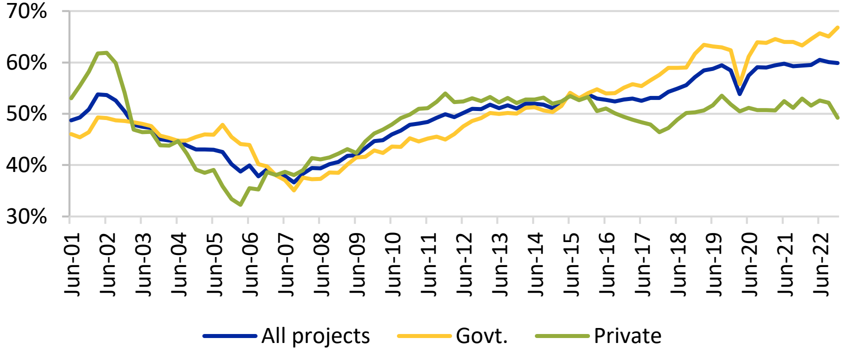
Corporate capex: Share of transport services projects under implementation in its total o/s projects has continuously risen, aided by Govt's contribution

EXHIBIT: Projects under implementation* for a sector as a share of outstanding projects for that sector (%)



**CMIE defines project under implementation as those projects that have moved beyond the initial stages of mere announcement; Data as on Jan 24, 2023; Source: CMIE; ICRA Research*

EXHIBIT: Govt vs. Private sector break up of Projects under implementation as a share of outstanding projects (%)

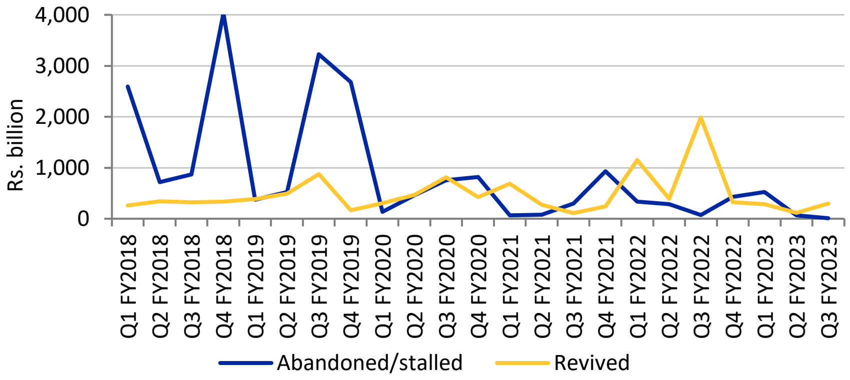


**CMIE defines project under implementation as those projects that have moved beyond the initial stages of mere announcement; Data as on Jan 24, 2023; Source: CMIE; ICRA Research*

- The share of projects under implementation in total outstanding projects eased marginally to 59.9% at end-Dec 2022 from 60.1% at end-Sep 2022, while remaining higher than the levels seen in the year-ago (59.4%) and pre-Covid (58.5% as at end-Dec 2019) periods. This was much higher than the historical levels (FY01-FY19), implying that a larger share of projects moved beyond their announcement stage, which could lead to higher completions in the medium term.
- After the pandemic-related drop in the share of under implementation prospects in total outstanding projects, the construction and real estate, and transport services sectors have been witnessing a continued uptrend, touching 80.0% and 68.4% levels, respectively, as at end-Dec 2022.
- The Government's projects under implementation in its total outstanding projects has charted an upward trajectory since Q3 FY2022. The share of the same rose to a record 66.8% at end-Dec 2022 from 63.3% at end-Dec 2021, amidst the intent to push infrastructure and budgeted capital outlays under key sectors such as roads and railways in FY2023 relative to FY2022, as evinced by a surge in projects under implementation for the transport services sector as mentioned earlier. This stood in contrast to the downtrend in private sector's share (to 49.2% at end-Dec 2022 from 53.0% at end-Dec 2021) during this period.

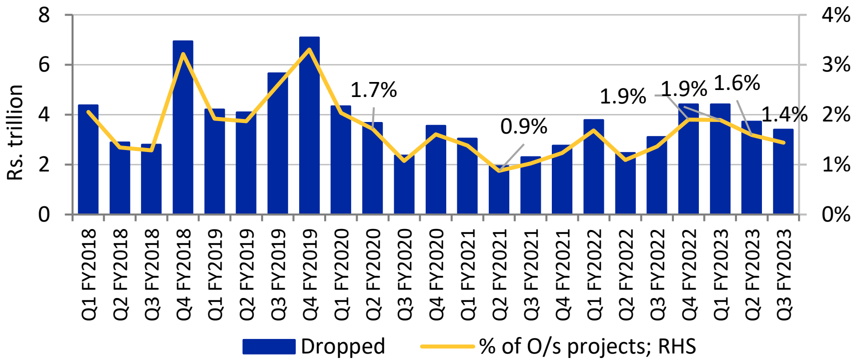
Corporate capex: Revived projects rebounded modestly in Q3 FY2023; while dropped projects stood at a four-quarter low of 1.4% of o/s projects

EXHIBIT: Trends in stalled/abandoned and revived investment projects



Data as on Jan 24, 2023; Source: CMIE; ICRA Research

EXHIBIT: Trends in dropped projects and its share in total o/s projects



If, on a sustained basis, no information is available for a project for long time, it is dropped from being counted as an outstanding project, according to CMIE's CapEx database; Data as on Jan 24, 2023; Source: CMIE; ICRA Research

- Encouragingly, revived investment projects nearly tripled to Rs. 297 billion in Q3 FY2023 from Rs. 116 billion in Q2 FY2023, while sharply trailing the Rs. 2.0 trillion seen in Q3 FY2022.
- Abandoned projects have displayed a declining trend in the recent past; in Q3 FY2023, such projects dipped considerably to a mild Rs. 9 billion relative to the levels seen in Q2 FY2023 (Rs. 69 billion) and Q3 FY2022 (Rs. 75 billion), while standing much lower than the what was recorded in Q3 FY2020 (Rs. 756 billion).
- In Q3 FY2023, dropped projects stood at Rs. 3.4 trillion (1.4% of outstanding projects), mildly lower than the Rs. 3.7 trillion (1.6%) seen in Q2 FY2023. Nevertheless, these levels stood higher than the Rs. 0.8 trillion average seen in the historical period (FY2002-2022; 0.6%).

Corporate capex: Net new investments rose to three-quarter high of Rs. 3.4 trillion in Q3 FY2023 boosted by higher value of new proposals

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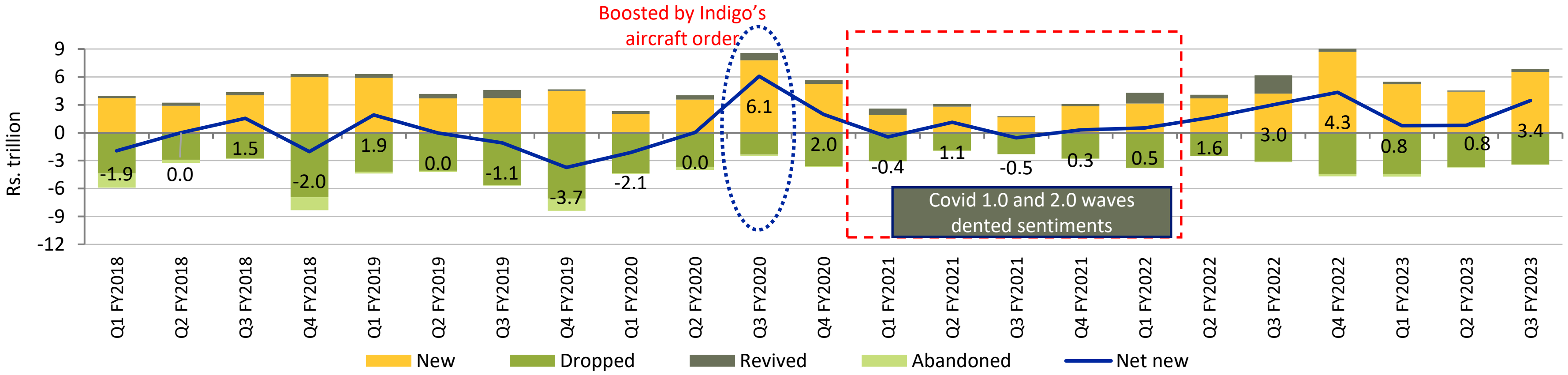
EXHIBIT: Break up of Net New Investment Projects (New + revived – dropped – abandoned)



Below origin depicts the dropped and abandoned projects, which are subtracted from the new and revived projects to arrive at net new investments; Definition of Dropped projects: If CMIE does not get any information of a project for a reasonably long time (which depends upon the size of the project), they drop it from the list of outstanding projects under consideration
Data as on Jan 24, 2023; Source: CMIE; ICRA Research

- In Q3 FY2023, the net new investment projects rebounded to Rs. 3.4 trillion after having remained subdued at Rs. 0.8 trillion each in Q1 FY2023 and Q2 FY2023. The QoQ surge in Q3 FY2023 was largely attributed to a healthy increase in the value of new announcements albeit led by a few big-ticket deals such as the Rs. 2.0 trillion semiconductor project as highlighted in earlier sections.
- This also benefitted from the mild dip in dropped projects to Rs. 3.4 trillion in Q3 FY2023 from Rs. 3.7 trillion in Q2 FY2023 and the surge in revived projects to Rs. 297 billion from Rs. 116 billion, respectively.

Central sector infra projects: Number of o/s projects continued to decline in Dec 2022, led by project completions over last 12 months

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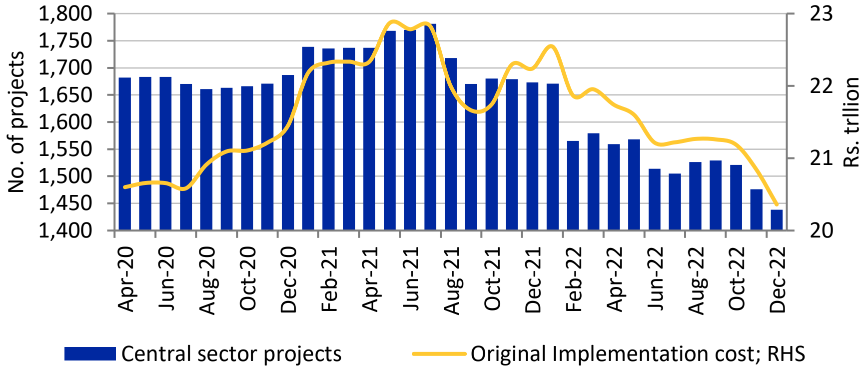
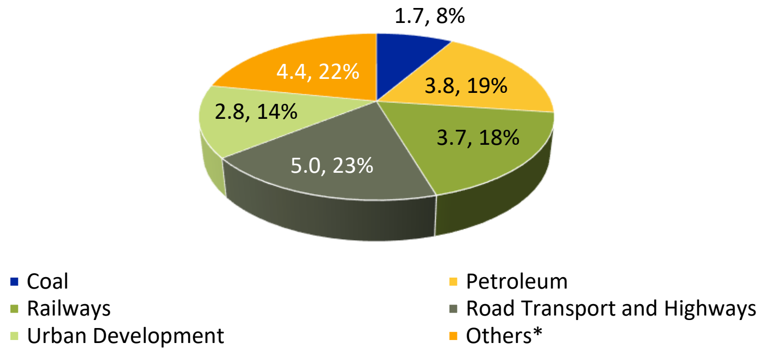
EXHIBIT: Number of central sector infra projects and original cost of implementation



Data is for projects with cost above Rs. 1.5 billion; Source: Infrastructure and Project Monitoring Division; MOSPI; GoI; ICRA Research

EXHIBIT: Sector-wise breakup of ongoing infra projects by original cost (Rs. trillion, % of total)



**Others includes atomic energy, civil aviation, water resources, telecommunication, steel, mines, fertilisers, etc; Data is for projects with cost above Rs. 1.5 billion; Source: Infrastructure and Project Monitoring Division; MOSPI; GoI; ICRA Research*

- The number of central sector infra projects on the monitor declined to a 34-month low of 1,438 in Dec 2022 from 1,476 in Nov 2022, while also trailing the year-ago level of 1,673 projects in Dec 2021. Additionally, the original cost of these projects dipped to Rs. 20.4 trillion in Dec 2022 from Rs. 20.8 trillion in Nov 202, while printing considerably lower than the year-ago level (Rs. 22.2 trillion). The decrease in the number of outstanding projects and their associated cost, relative to the Dec 2021 level was partly driven by a large number of project completions during the last 12 months (323 in CY2022 vs. 194 in CY2021).
- While the road transport and highways segment accounted for 50% of the number of central infra projects outstanding, their share in the total implementation cost was much lower at 19%. In contrast, the urban development segment accounted for just 2% of the number of projects but 14% of the total implementation cost, reflecting the relatively larger average size of such projects.

Central sector infra projects: Project completions remained robust during Apr-Dec 2022, dominated by power, and road transport and highways

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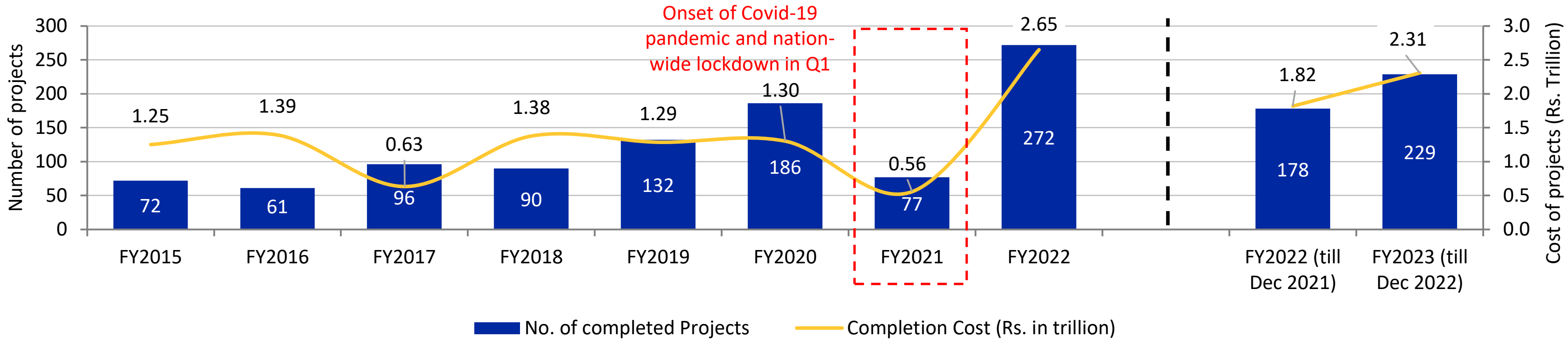
EXHIBIT: Total number and aggregate cost of central sector infrastructure projects completed



Data is for projects with cost above Rs. 1.5 billion; Source: Infrastructure and Project Monitoring Division; MOSPI; GoI; ICRA Research

- As many as 229 central sector infra projects were completed during Apr-Dec FY2023, ~29% higher than the 178 completions that were seen during Apr-Dec FY2022. Moreover, completions in Apr-Dec FY2023 exceeded the number seen during full-year FY2020 (186). Completions of central sector infra projects had surged through FY2022 led by some spillovers from FY2021 (owing to delay following the outbreak of Covid-19), thereby boosting the base.
- The road transport and highways sector accounted for a major ~73% of the number of projects completed during Apr-Dec 2022.
- The total cost of completed projects in Apr-Dec FY2023 (Rs. 2.31 trillion) was ~27% higher than the corresponding year-ago level (Rs. 1.82 trillion), while also exceeding the full-year FY2020 level (Rs. 1.86 trillion). The power, and road transport and highways segments together accounted for ~87% of the total cost of completion of central sector infra projects during Apr-Dec 2022.

Central sector infra projects: Completions appear set to surge in FY2024 ahead of elections, which would support India's GDP growth amidst global headwinds

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EXHIBIT: Quarterly completion schedule* of central sector infrastructure projects

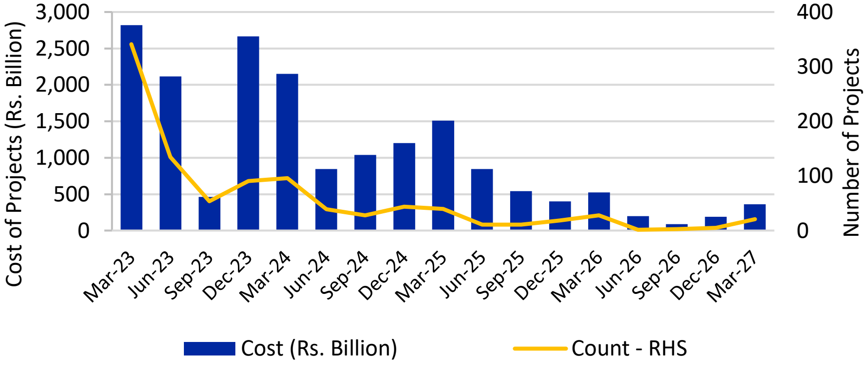
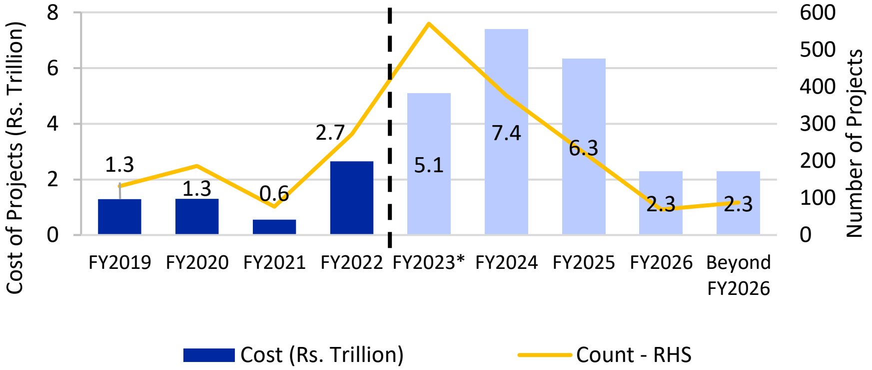


EXHIBIT: Annual completion schedule~ of central sector infrastructure projects



*~The completion schedule is derived by the data provided on the anticipated date of commissioning for all ongoing projects costing atleast Rs. 150 crore in the Dec 2022 flash report; *for FY2023 we have used actual completions for Q1, Q2 and Q3 FY2023 and scheduled completions for Q4 FY2023; Source: Infrastructure and Project Monitoring Division; MOSPI; GoI; ICRA Research*

- Based on the available anticipated commissioning dates for all ongoing central infra sector projects, we assess that projects worth Rs. 2.8 trillion are intended to be completed in the quarter ending March 2023, which is higher than the Rs. 2.3 trillion of projects completed in the first nine months of FY2023. The completion schedule is revised frequently with changes in anticipated completion dates as well as costs of individual outstanding projects.
- Going forward, the pipeline of projects scheduled to be commissioned is massive in FY2024, amounting to Rs. 7.4 trillion, with 66% of the completions concentrated in four key sectors, namely, petroleum (19%), railways (18%), road transport and highways (15%) and power (13%). Although the anticipated completion dates are subject to revisions, even if ~60-70% of this amount materialises in FY2024, it would be significantly higher than the levels seen in FY2022.
- The push to commission projects that are nearing their final stages of completion, ahead of the general elections, is likely to boost the growth in gross fixed capital formation and support the pace of domestic GDP expansion in FY2024, which we peg at ~6.0%.

Central sector infra projects: Cumulative expenditure on such projects up by ~9% YoY in FY2023 so far; ~54% of anticipated costs spent cumulatively by Dec 2022

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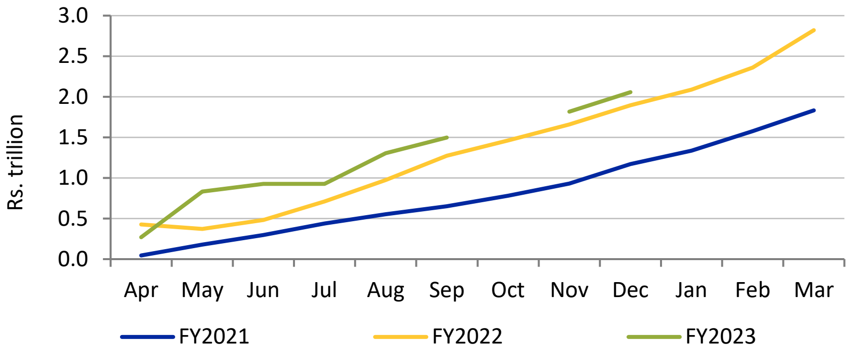
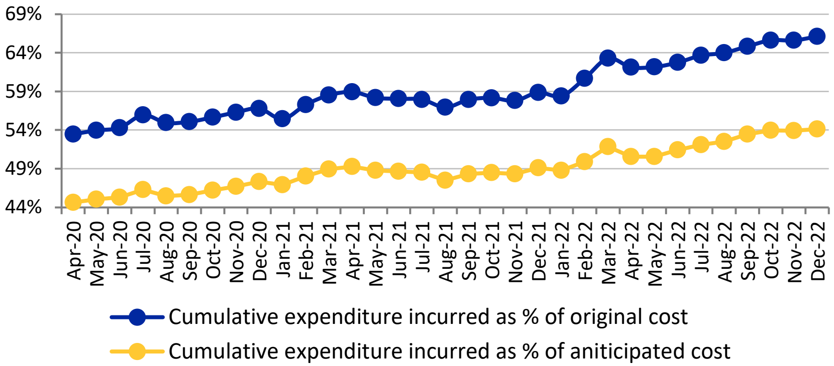
EXHIBIT: Cumulative expenditure incurred on these projects during financial year



Data is for projects with cost above Rs. 1.5 billion; Data for Oct 2022 is not available; Source: Infrastructure and Project Monitoring Division; MOSPI; GoI; ICRA Research

EXHIBIT: Expenditure incurred on these projects till date as % of original and anticipated cost



Data is for projects with cost above Rs. 1.5 billion; Source: Infrastructure and Project Monitoring Division; MOSPI; GoI; ICRA Research

- The cumulative expenditure on Central infra projects during Apr-Dec FY2023 stood at Rs. 2.1 trillion, 8.5% higher than the corresponding year-ago level of Rs. 1.9 billion.
- Additionally, the cumulative expenditure incurred on these projects since their inception stood at Rs. 13.5 trillion at end-Dec 2022, equivalent to 66.1% of the original cost of implementation. This metric has risen steadily from 58.9% in Dec 2021.
- Nevertheless, owing to time and cost overruns in several projects, the anticipated completion cost exceeds the original cost by about Rs. 4.5 trillion at end-Dec 2022. Accordingly, the cumulative incurred expenditure till date stands at 54.1% of the anticipated completion cost of Rs. 24.9 trillion (as against 49.1% in Dec 2021).

Central sector infra projects: Number of delayed projects rose sharply in Dec 2022

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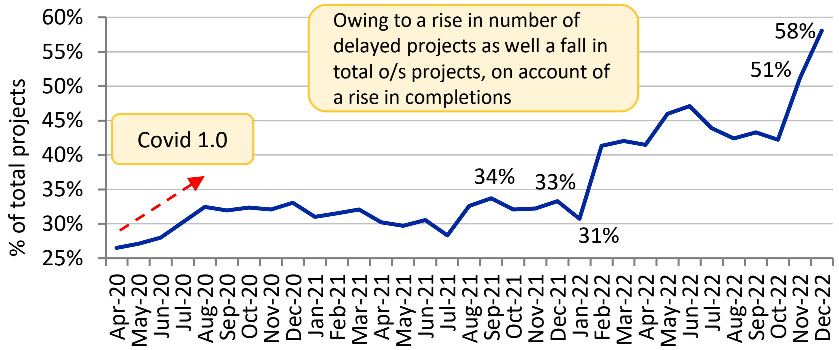
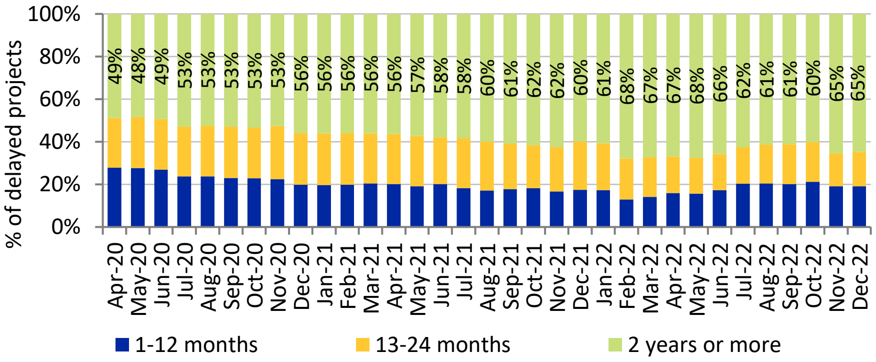
EXHIBIT: Delayed projects (% share in total number of projects) reporting time overruns with respect to original schedules



Data is for projects with cost above Rs. 1.5 billion; Source: Infrastructure and Project Monitoring Division; MOSPI; GoI; ICRA Research

EXHIBIT: Time-wise delayed projects reporting time overruns with respect to original schedules (%)

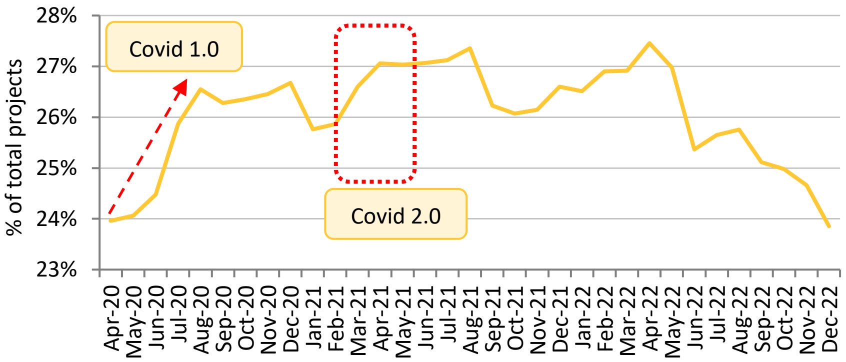


Data is for projects with cost above Rs. 1.5 billion; Source: Infrastructure and Project Monitoring Division; MOSPI; GoI; ICRA Research

- Out of the total 1,438 central sector infra projects on the monitor, as many as 835 or 58% were delayed in Dec 2022 with respect to their original schedules. Sectors such as railways (117 out of 173), petroleum (88 out of 158), power (55 out of 80), water resources (27 out of 41) and civil aviation (24 out of 26) witnessed the largest proportion of delayed projects, even as road transport and highways (428 out of 724) saw the highest number of delayed projects.
- Although the number of projects outstanding declined to 1,438 in Dec 2022 from 1,476 in Nov 2022, the number of delayed projects (to 835 from 756) rose during this period, pushing up their share to 58% from 51%, respectively.
- The share of projects reporting time overruns of at least two years w.r.t. original schedules stood at 64.8% in Dec 2022, moderating marginally from the previous month (65.5%), but lower than that at the beginning of the fiscal (67-68%).

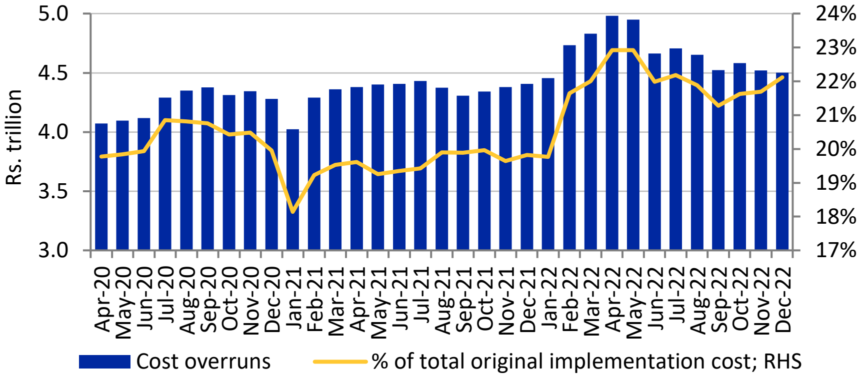
Central sector infra projects: Share of projects having cost overruns declined to 32-month low in Dec 2022

EXHIBIT: Share of projects reporting cost overruns with respect to the original cost of implementation (%)



Data is for projects with cost above Rs. 1.5 billion; Source: Infrastructure and Project Monitoring Division; MOSPI; GoI; ICRA Research

EXHIBIT: Cost overrun vs. original cost of implementation (Rs. trillion)



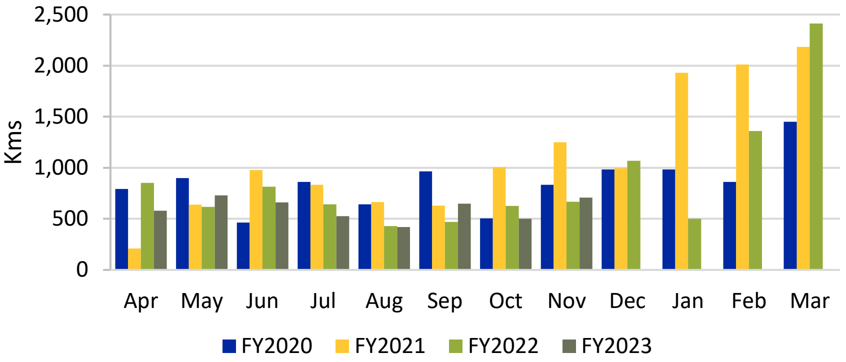
Data is for projects with cost above Rs. 1.5 billion; Source: Infrastructure and Project Monitoring Division; MOSPI; GoI; ICRA Research

- The number of central sector infra projects reporting cost overruns dipped to 343 in Dec 2022 from 364 in Nov 2022. As a result, the share of projects with cost overruns declined to a 32-month low of 23.9% from 24.7%, respectively, while remaining elevated compared to pre-Covid levels.
- The share of projects with cost overruns was the highest for the railways (131 out of 173). While the number of projects with cost overruns for road transport and highways was high (105 out of 724), the share of projects with cost overruns for this sector was lower than the average across all sectors.
- The value of cost overruns (i.e., difference between anticipated completion cost and original cost of implementation) remained broadly stable at Rs. 4.50 trillion in Dec 2022 as compared to Nov 2022 (Rs. 4.52 trillion), while exceeding the year-ago level by 2.1%. Cost overrun, as percentage of original implementation cost, rose marginally to 22.12% in Dec 2022 from 21.69% in Nov 2022.

Centre and states' roads activity: Higher RM costs and untimely rains towards end of monsoon season slowed pace of MoRTH execution in Apr-Nov 2022

ICRA

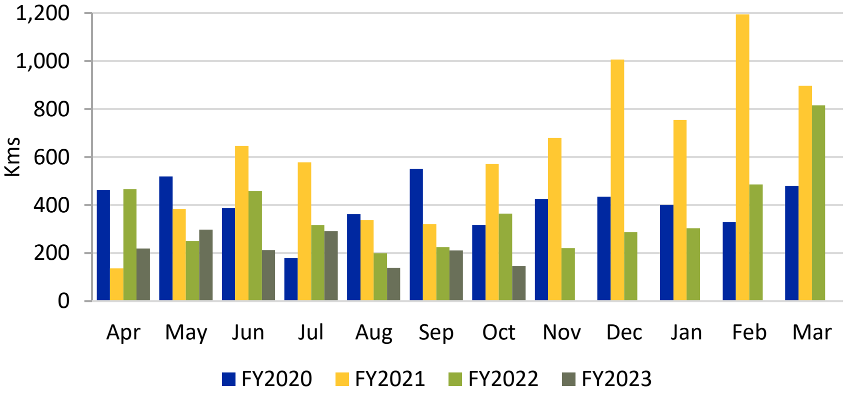
EXHIBIT: MoRTH Monthly Execution



Source: Ministry of Road Transport and Highways (MoRTH); GoI; ICRA Research

- Against the ambitious target of 18,000 km (50 km/day) for FY2023, 26.5% or 4,766 km (19.5 km/day) of national highways were constructed during Apr-Nov FY2023, a YoY decline of ~7%, with delays influenced by higher raw material costs followed by unseasonal heavy rains towards the end of monsoon season.
- Execution in Nov 2022 rebounded in MoM (+41%) and YoY (+6%) terms, after having contracted in Oct 2022 (-23% and -20%, respectively).
- Given the healthy order book of road players and moderation in the key input prices, the execution is expected to improve in the remainder of FY2023. Overall, the execution is expected at 10,000-10,500 km for FY2023, in line with FY2022.

EXHIBIT: Monthly trend of upgradation of lanes* by state PWD and BRO

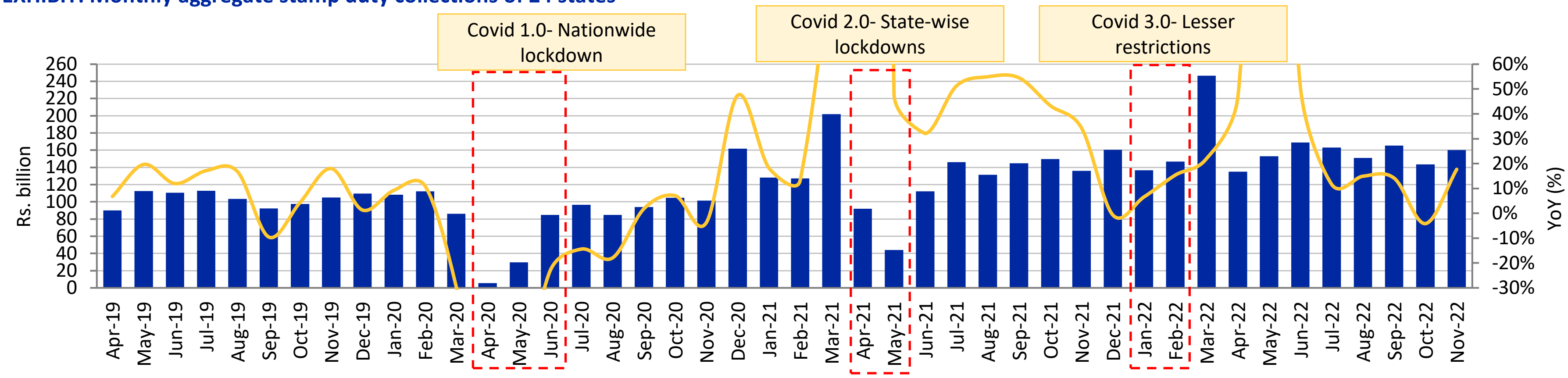


**These include widening of two/four/six/eight lanes, and strengthening of existing weak pavement*
BRO: Border Road Organisation; Source: MOSPI; GoI; ICRA Research

- The widening of lanes by State PWDs and BRO declined by ~34% YoY to 1,518 km in Apr-Oct 2022, a muted ~31% of the FY2023 target. Moreover, it trailed the pre-Covid levels by a considerable 45%.
- After growing in low single-digits in Aug-Sep 2022, execution posted a YoY contraction of ~30% in Oct 2022 owing to extended monsoons. With moderation in rainfall since then, lane upgradation by states may improve, akin to the trend seen in NH roads' execution.

<u>Household capex</u>: Amidst a base effect-led moderation in YoY growth, stamp duty collections remained healthy in Oct-Nov 2022 compared to pre-Covid levels

EXHIBIT: Monthly aggregate stamp duty collections of 24 states*

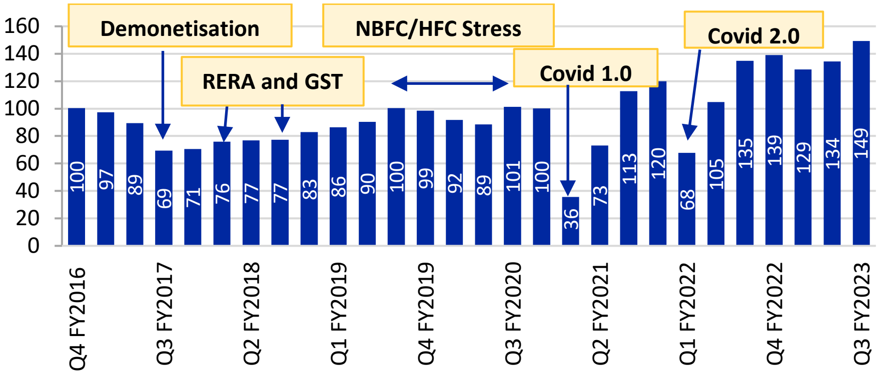


**The sample comprises of 24 states except Assam, Manipur, Mizoram, and Goa; Source: CEIC; ICRA Research*

- The YoY growth in the stamp duty collections of 24 state governments, a proxy for property sales, halved to 6.2% in October-November 2022 from 13.5% in Q2 FY2023, primarily on account of continued base normalisation post the Covid 2.0 wave.
- Relative to the pre-Covid levels of October-November 2019, stamp duty collections of these states expanded by a healthy ~50% during October-November 2022, indicating that housing demand remained buoyant, even as sentiments have dipped modestly amid rising interest rates.

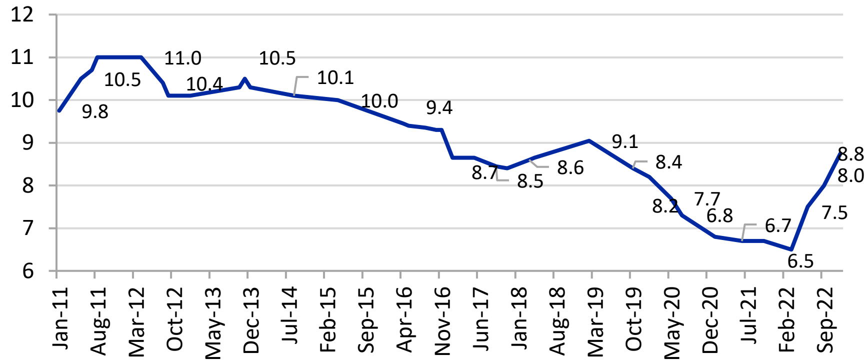
<u>Household capex</u>: Home sales in top 7 cities surged to record levels in Q3 FY2023, although YoY growth expectedly moderated owing to high base

EXHIBIT: Trend in home sales in top 7 cities (mn sft)



Source: Propequity, ICRA Research; Top 7 cities: MMR, NCR, Bangalore, Chennai, Hyderabad, Pune, and Kolkata

EXHIBIT: SBI Home loan interest rate (%)

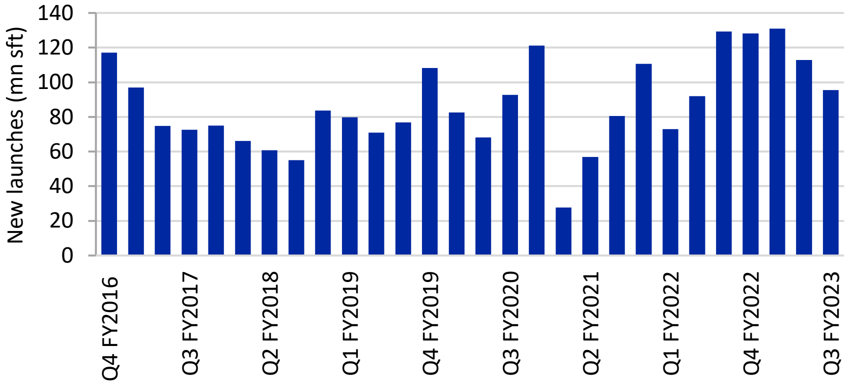


Source: SBI; ICRA Research

- Aggregate home sales volumes in the top seven cities surged by 11.2% on a sequential basis to touch a record 149.4 mn sft in Q3 FY2023, implying that the housing market continued to remain buoyant in the quarter. However, the YoY growth expectedly moderated to 10.8% in Q3 FY2023 from 28.3% in Q2 FY2023, albeit on a high base, while remaining in double digits. Moreover, sales volumes exceeded the pre-covid levels of Q3 FY2020 by a healthy 47.5%, only slightly lower than the 51.6% expansion seen in Q2 FY2023.
- Overall, absorption has been quite strong in the last five quarters, averaging at 137.3 mn sft, aided by pent-up demand, low home loan interest rates, certain state incentives, flexible working model adopted by corporates due to Covid-19 and healthy job and income growth in the IT/ITES sector.
- Following the 225 bps rate hikes by the RBI, home loan rates have risen quite sharply from the bottom seen in Mar 2022, but continue to remain lower than historical levels. **Nevertheless, we believe that this will impact buyer sentiment and demand going forward, particularly in the affordable housing segment, wherein buyers are heavily reliant on home loans.**

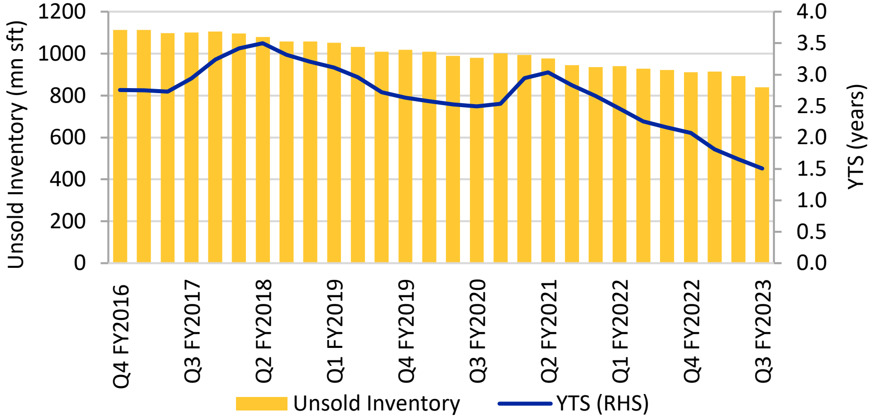
Household capex: Sharp decline in new launches amidst a continued healthy absorption resulted in dip in inventory overhang in Q3 FY2023

EXHIBIT: Trend in New Launches in Top 7 Cities



Source: Propequity, ICRA Research; Top 7 cities: MMR, NCR, Bangalore, Chennai, Hyderabad, Pune, and Kolkata

EXHIBIT: Trend in Unsold Inventory and Years to Sell (YTS) in Top 7 cities



Source: Propequity, ICRA Research; Top 7 cities: MMR, NCR, Bangalore, Chennai, Hyderabad, Pune, and Kolkata

- Notwithstanding the continued strong absorption levels in through Q1-Q3 FY2023, new launches in the top seven cities dipped to a five-quarter low of 95.5 mn sft in Q3 FY2023. While they were 26.1% lower on a YoY basis, they were just 2.9% higher than pre-Covid levels of Q3 FY2020.
- With a fall in new launches and continued healthy absorption, the inventory overhang in the top seven cities fell to a decadal low of 839 mn sft in Q3 FY2023 (825 mn square feet seen in Q3 FY2013), ~9% lower than year ago levels. Consequently, the Years to Sell (YTS) in the top 7 cities has dropped to ~1.5 in Q3 FY2023 from ~2.2 in Q3 FY2022 - this was the lowest level in 11 years.

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Thank You!