Industry hesitating to invest amid global headwinds, uncertain demand: Experts

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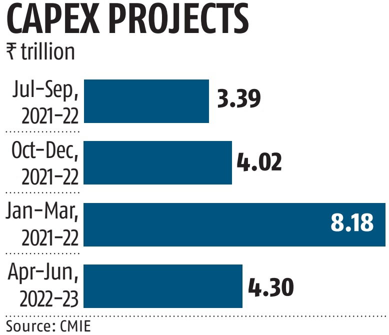

India Inc is not confident of the durability of the demand recovery that together with external headwinds is not encouraging firms to increase investments.

Though private final consumption expenditure (PFCE), denoting demand in the economy, rose 13.5 per cent in the first quarter of 2022-23 (FY23) and was almost 10 per cent higher than the corresponding period of pre-Covid FY20, businesses are not certain that demand will continue to gather momentum as the retail price inflation remained above the Reserve Bank of India's threshold for the eighth consecutive month in August.

"The confidence of the private sector on the sustainability of demand is low, given economic headwinds. This is leading to lower appetite for investing to build capacity," said Ranen Banerjee, leader economic advisory Services, PwC India.

Bank of Baroda chief economist Madan Sabnavis said companies invest based on demand, which is not broad-based. That takes time to evolve.

ICRA chief economist Aditi Nayar said, "High commodity prices, geopolitical uncertainties, and uneven consumer demand are likely to have prompted corporate India to deter their capex plans in spite of a healthy capacity utilisation in Q4 of FY22."

According to the OBICUS (order books, inventories, and capacity utilisation) Survey conducted by the RBI, capacity utilisation in the manufacturing sector rose to 75.3 per cent in the fourth quarter of FY22 from 72.4 per cent in Q3 of that year. Capacity utilisation levels have improved consecutively for three quarters in a row. In Q1FY21, it had fallen sharply to 47.3 per cent because of the lockdown imposed by the government after the Covid-19 outbreak.

Nayar said capacity utilisation is likely to report a seasonal dip in Q1FY23, exacerbated by uneven demand for goods and geopolitical headwinds.

In FY22, it was a mixed bag in terms of capacity utilisation when compared to the pre-Covid period of FY20, says a note from Bank of Baroda. The turnover to gross fixed asset ratio, a proxy for capacity utilisation in industry, declined for 25 sectors, including power, logistics, hospitality, media and entertainment, industrial gases and fuel, crude oil, aviation, realty sector, fast-moving consumer goods, capital goods, IT, infrastructure, consumer durables in FY22 over FY20, the note points out.

On the other hand, the ratio rose for 13 sectors such as telecom, ship building, construction materials, iron and steel, gas transmission, textile, mining, and electricals.

On Tuesday, FM Nirmala Sitharaman asked Indian companies why they were hesitant to invest despite the government cutting the corporation tax rates and announcing the production linked incentive scheme. "I want to hear from India Inc. What is stopping you?" she said.

As many as 15.85 per cent of the companies having 62.01 per cent of the total income have opted for the concessional 22 per cent tax scheme and 0.14 per cent of companies with a minuscule income opted for taking benefits under the 15 per cent tax regime in FY20.

Banerjee said the cut in corporate tax rates and the consequent benefits were used by corporates to deleverage their balance sheets that got over leveraged in trying to build capacity. "The pre-Covid slowing down, the Covid shock, and the current fears of global growth challenges owing to ultra-tough monetary stances of central banks to tackle inflation are leading to continued capacity slack," he said.

According to the Centre for Monitoring Indian Economy, ₹4.30 trillion worth of capex projects, both government and private, were announced in Q1FY23, against Rs 8.18 trillion worth of projects in Q4FY22.