Manufacturing investment gestation rate rises to 5-year peak

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A key metric that measures the efficiency with which manufacturing projects are completed is at its best in half a decade. The rate of gestation is a measure of time efficiency in completing manufacturing projects relative to its cost, as defined by the Centre for Monitoring Indian Economy (CMIE).

It is the time taken (in months) for completion from announcement, divided by the cost of the project in billion rupees (₹1 billion is ₹100 crore). (If a project is worth ₹350 crore and the number of months taken is 22, then it is 22 divided by 3.5.)

Lower numbers indicate greater efficiency in putting money to work. The rate of gestation for 2024-25 (FY25) was 9.17 months per ₹100 crore in project expenditure. It was worse (10.33) in 2018-19. The present number is also better than the 12.58 months seen in the previous two years (chart 1).

Consumer goods as a sector saw significant improvement in the rate of gestation. This is followed by transport equipment, food and agro-based products, and machinery. Some key manufacturing sectors such as metals and metal products, and textiles have seen a notable decline (chart 2).

"Even if the current tariff war doesn't culminate in significant trade barriers against China, it has already triggered a shift," said Dhiraj Sachdev, chief investment officer, Roha Venture. "Global companies, especially American ones, are now diversifying their manufacturing bases to mitigate future geopolitical or trade risks."

According to Sachdev, the trend is particularly strong in consumer durables rather than staples. "We're seeing increasing investment in manufacturing appliances such as mobile phones, air conditioners, washing machines, and other electronics — categories that were predominantly imported earlier," he said. This shift is being driven by both supply-chain considerations and strategic priorities to reduce dependency on single-source countries, Sachdev added. Meanwhile, the numbers for the Indian private sector as a whole have worsened. This segment includes non-manufacturing sectors as well. The rate of gestation is at its worst in 20 years (chart 3).

Mining, electricity, services and construction, and real estate are some of the non-manufacturing segments. Mining has seen the biggest increase in the rate of gestation, followed by construction and real estate.

Larger structural issues are likely to continue to affect confidence for large-scale private investment, suggested Sachchidanand Shukla, group chief economist, Larsen and Toubro.

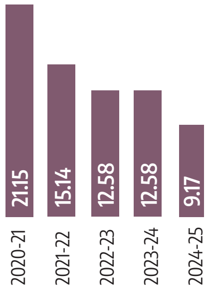
The largest sources of capital expenditure by private players historically have been sectors like oil and gas, and metals. All of these are facing changes in the way they do business because of decarbonisation and global regulatory changes such as the Carbon Border Adjustment Mechanism (CBAM), a carbon tax, as Europe moves to decarbonise the steel industry and also to control emissions.

"Longer-term regulatory uncertainty is a huge confidence-buster," he said. Heavy industries have to contend with the fact that the regulatory environment and demand conditions may be very different in, say, four-five years. They need longer-term certainty. The other big uncertainty that a few other industries face on investment is huge Chinese overcapacity across sectors. All of this has likely been having a dampening effect on sentiment and the execution of projects even before American President Donald Trump's tariffs and geopolitical tensions, said Shukla.

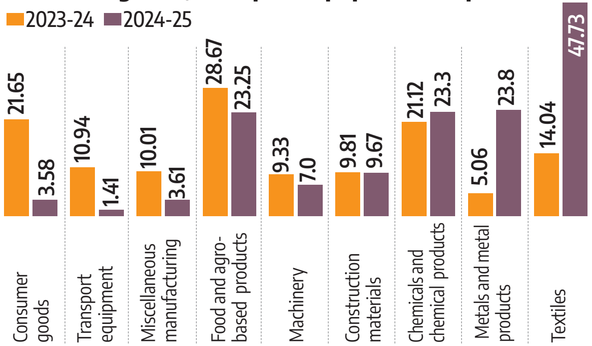
Taking stock

Rate of gestation (months per ₹100 crore in spends)

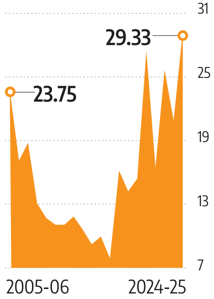
Better execution for manufacturing projects



Consumer goods, transport equipment outperform



Private sector lags overall



Note: Rate of gestation measures time efficiency relative to project costs. It is the time taken (in months) for completion from announcement, divided by the cost of the project in billion rupees (₹1 billion is ₹100 crore).

Source: CMIE