Moody's sees capital spend of rated Indian firms hitting $45-50 billion/annum over next 1-2 years

Our Bureau
Mumbai

Moody's Ratings expects rated Indian companies' capital expenditure to be high, spending $45-50 billion annually over the next 1-2 years as they boost capacity for growing consumption and to achieve self-sufficiency.

Investments to increase vertical integration and achieve net zero targets will also keep the spending high, per a report by the global credit rating agency, which rates 23 companies in India.

Corporates expected to boost capacity for the growing consumption and to achieve self-sufficiency

RIL TO LEAD SPENDING

The oil and gas sector and Reliance Industries Ltd (RIL) will collectively account for over 60 per cent of the rated Indian portfolio's spending over the next couple of years, it added. The agency said with an annual capex budget of around $15 billion spread across different business segments, Reliance Industries alone will account for around 30 per cent of the capex by the portfolio companies.

Moody's noted that rated companies' leverage had fallen in India over the past three years as they paid down their debts.

Strong earnings will continue to keep leverage low even as companies push ahead with capital spending plans in response to consumption growth and as offshore borrowing rates remain high, according to its assessment. The rating agency observed that corporate leverage had improved in recent years, helped by earnings growth, and will stay low around 2 times over the next 12-18 months.

It estimated that the consolidated earnings for rated companies in India will rise 5 per cent in each of the next two years, driven by broad-based growth across various sectors, including metals, mining and steel, telecommunications and auto.

Infrastructure spending, increasing energy consumption and rising demand for connectivity will support earnings across multiple sectors. The rising share of onshore borrowings for companies in India reflects a narrower interest rate gap with the US. Interest rates in India have historically been much higher than in the US.

While improving domestic liquidity and companies' internal cash flows can cover a portion of capital needs, offshore funding will remain an important channel in India.

ROBUST GDP GROWTH

India has strong growth potential, with GDP expected to grow at over 6 per cent over each of the next two years.

"India's economy is well diversified across services and manufacturing... Domestic demand will be the main driving force behind India's growth. The large proportion of domestic consumption has and will continue to insulate the rated companies from external shocks," Moody's said.