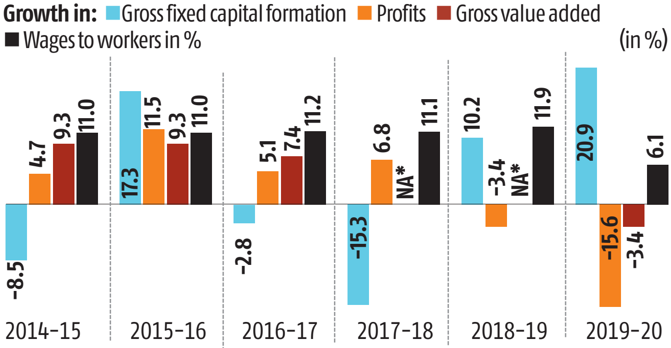
Slowing economy affected profits, but investments upbeat in FY20

INDIVJAL DHASMANA
New Delhi, 19 August

THE FINDINGS

Various parameters at factory level



*NA: Data not given in the survey

Source: Annual Survey of Industries 2019-20

Investments by companies at factory level remained upbeat even as the economy was slowing down in a pre-Covid period of 2019-20, showed the latest annual survey of industries (ASI). The effect of the slowing economy was felt on wages to workers, profits of these companies, and their gross value addition that year.

The gross fixed capital formation (GFCF) by these companies grew almost 21 per cent at Rs 4.16 trillion at current prices during rpt during 2019-20, double the growth of 10 per cent in the previous year. The growth rate was a nine-year high as the previous peak was 21.21 per cent in 2011-12.

Despite that, profit by these companies without adjustment to inflation declined 15.6 per cent in the pre-Covid year against a fall of 3.4 per cent in 2018-19. Gross value added (GVA) by them shrank 3.4 per cent in 2019-20. It should be noted that the ASI gives figures at factory level and not enterprise level. As such, profit figures are operating profit, explained former chief statistician Pronab Sen.Declining GVA and profits led to fall in wages to workers growth to six per cent in 2019-20 against consistent 11 per cent or more growth for many years, at least since 2014-15. These factories are basically manufacturing units, repair service units and electricity, gas and water supply ones. It seems a bit perplexing as to why profits and GVA of these factories were down when investment was so high. Sen explained the GVA of these companies and profits contracted as the economy slowed down in 2019-20. GDP grew by just 3.7 per cent that year against 6.5 per cent in the previous year. GVA rose 3.8 per cent against 5.8 per cent over this period. GDP at current prices grew 6.2 per cent in 2019-20 against 6.2 per cent in the previous year.