India Inc awaits demand uptick to go on capex spree

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Chief executive officers (CEOs) across sectors have expressed intentions to expand capacities, expecting the government's target to invest a record ₹11.11 trillion on infrastructure development will act as a catalyst for a jump in consumer demand.

"With the government planning a capex of ₹11.11 trillion, private sector investment will come in a big way. Companies will be preparing for it right from today," H M Bangur, chairman of Shree Cement, told *Business Standard*.

For the past few years, the investment scene in India has been dominated by government capital expenditures; private investments in the manufacturing sector have remained muted. Weak domestic consumption, tepid external demand, and a flood of cheap Chinese imports have made Indian companies cautious about expanding manufacturing capacities.

The 2023-24 Economic Survey, presented in Parliament on Monday, highlighted that despite rising profits, Indian companies have been reluctant to invest in new manufacturing capacities or intellectual property products.

CEOs emphasise that expanding manufacturing capacity hinges on demand. "Suppose I expand capacity and there is no demand, I will be wasting money. We are accountable for capital given by shareholders, and we have to give them a return. Manufacturing is really driven by demand and GDP growth," argued Ashank Desai, managing director of Mastek, an IT firm.

R Shankar Raman, chief financial officer and whole-time director of L&T, stated that he has yet to look into the finer details of the 2024-25 Budget announcements. However, he noted: "Private capex is going to be measured and won't happen in a burst."

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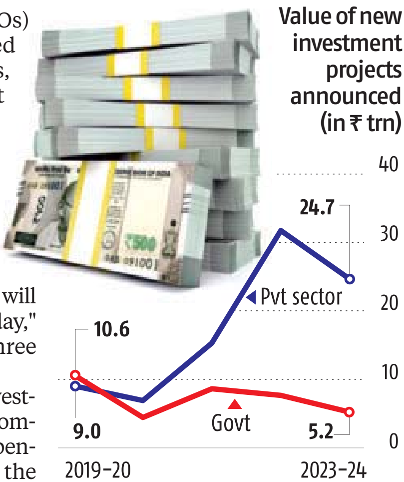
PROJECT PIPELINE: PVT SECTOR LEADS



Source: CMIE

Large conglomerates have announced long-term investment plans this yr

He identified sectors such as data centers, real estate, semiconductors, and building materials like cement and steel as areas where investments are taking place, but emphasised that these investments "will not come in a rush as seen in the public-private partnership (PPP) era earlier. It will be more measured and need-based."

"However, if the economy grows at the current scale and all other factors align, it will attract private capex in the coming years," Raman said.

Commenting on the Economic Survey's observations about the private sector needing to build momentum, Raman said: "It's a signal they're giving — not to expect the Centre to bear all the burden. States will need to improve their finances," and he further added, "for finances to improve, we will have to let go of the freebie culture."

Vimal Kejriwal, chief executive officer and managing director of KEC International, also commented on the Economic Survey, stating: "The private sector needs to do more on capex because it brings agility, innovation, and the ability to quickly adopt new technologies, which drive economic growth and job creation. However, for the private sector to increase capex, it will need the government's support through improving the ease of doing business, investing in essential infrastructure, facilitating access to finance, and promoting public-private partnerships, thereby creating a conducive environment for private investment and sustainable growth."

Since early this year, large Indian conglomerates have announced massive long-term investments. Reliance Industries, India's largest company, is set to invest $60 billion over the next decade, according to estimates by Morgan Stanley. In June, JSW Group increased its investment target to $70 billion, focusing on new ports, steel, and infrastructure projects by 2030.

The Tata group has announced plans to invest $120 billion across its companies, including its airline business, while the Adani group has unveiled a $100 billion investment plan over the next decade, primarily targeting new airports, ports, and green energy projects. Adani officials said they have made arrangements for funding of the entire expansion plan for the next few years, based on their projections.

Similarly, Aditya Birla Group's UltraTech Cement plans to invest ₹32,400 crore (nearly $4 billion) in ongoing capital expenditures over the next three years, with ₹8,000 crore-₹9,000 crore (roughly $1 billion) earmarked for the current financial year.

"We are already expanding and investing in acquiring new businesses to broaden our product portfolio. The duty exemptions on raw materials, increased focus on infrastructure development, and sustainability measures will certainly help us identify new avenues of growth," said Abhyuday Jindal, MD of Jindal Stainless. "With growing domestic demand and in light of our current expansion strategy, we will be hiring more employees across our existing and new businesses to meet our ambitious growth goals," he added.

Notwithstanding these announcements from leading companies, capacity expansion plans remain muted among other Indian firms.

Analysts predict an uptick in domestic consumption on rural economic recovery and stabilising inflation. "The external demand scenario is also improving with a global growth outlook improving. We expect gradual improvement in private investment in the coming quarters. But competition from Chinese imports will remain a concern," noted Rajani Sinha, chief economist at CareEdge Ratings.