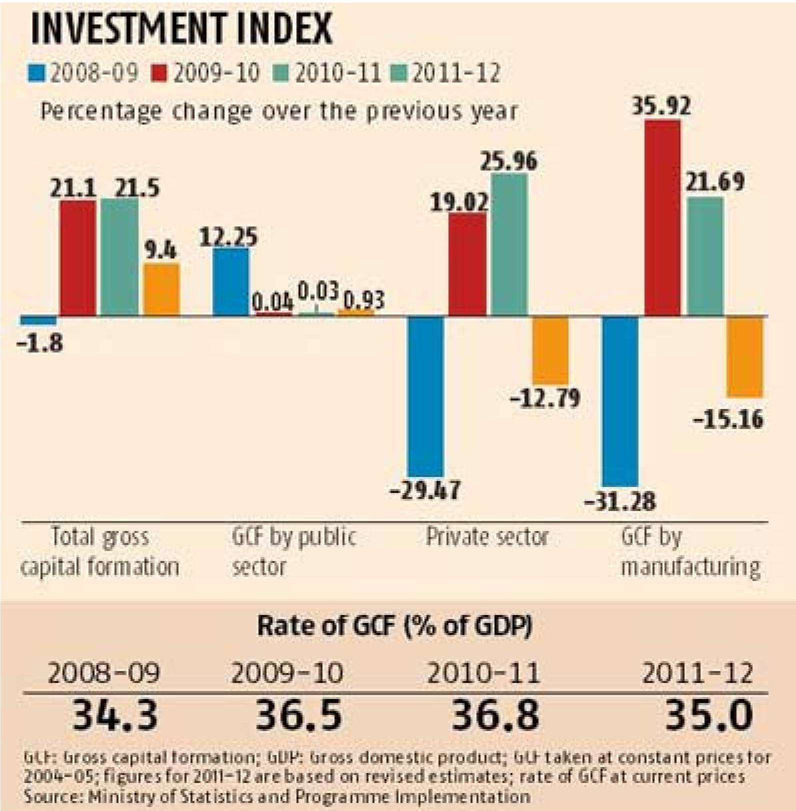
India Inc investments contracted in FY12

After the global crisis of FY09, investments by corporates, adjusted for inflation, again declined in 2011-12, albeit not as severe as at the time of the recent financial meltdown. The Reserve Bank of India (RBI)'s tight monetary policy and policy inaction led to a fall of 12.79 per cent in capital formation by private sector companies at Rs 7.08 lakh crore from Rs 8.12 lakh crore in the previous year, the latest official data showed.

The contraction may be a bit decelerated in 2012-13, but only moderately as the government's efforts to revive investment came only in the middle of the year, which will take time to yield results. According to economists, RBI delayed its stance on cutting the repo rate due to heightened inflation. Meanwhile, public sector investment inched up 0.93 per cent at Rs 4.71 lakh crore in 2011-12 from Rs 4.67 lakh crore in the previous financial year, according to GDP figures released by the ministry of statistics and programme implementation (MoSPI).

Investment in manufacturing fell 15.16 per cent to Rs 5.64 lakh crore in 2011-12 from Rs 6.95 lakh crore in the previous financial year. The data came even as the government was looking at the manufacturing sector to provide jobs to the youth in the long run. The government aims to generate a large number of jobs in the manufacturing sector in over a decade by raising the share of factories production in India's gross domestic product from 15-16 per cent to 25 per cent.



According to the XIIth Plan (2012-13 to 2016-17) document, employment in manufacturing reduced five million between 2005-06 and 2009-10 after clocking growth of 12 million jobs in the first five years of this century. The trend needs to be reversed since 183 million job seekers are expected to join the workforce over the next 15 years, the document says. However, according to analysts, the trend seems to have hit the wall again.

Economists said the fall in investment rate by corporates was expected, as 2011-12 saw some tough times in the form of stubborn inflation, high interest rates and also the global headwinds. Soumya Kanti Ghosh, chief economist with the Federation of Indian Chambers of Commerce and Industry (Ficci), said commodity prices were at its peak in the beginning of 2011. On the other hand, in the previous financial year "the investment sentiment was good as the new government had come in some time back that had raised hopes for the corporates".

Anis Chakravarty, director at Deloitte Haskins & Sell, said the high inflation and interest rates make it difficult to have re-investible surplus. "The small and medium companies were the ones that suffered the most," he said.

According to Ghosh, the current financial year will see some positive developments on the back of the reform decisions taken by the government along with RBI reducing interest rates. "The investments will certainly go up," Ghosh said.

But, Chakravarty said the situation would begin to improve close to second or third quarter of the next financial year.

The government initiated reforms by opening multi-brand retail to up to 51 per cent foreign direct investment (FDI), subject to state approvals, raised FDI in single brand retail, increased diesel prices, allayed investors concern by accepting most of the Parthasarathi committee report on the General Anti-Avoidance Rule (GAAR).

RBI, which had been very hawkish due to persistently high inflation, joined hands in pushing growth and reduced key policy rates for the second time this financial year by 25 basis points (bps). Earlier, the RBI had cut interest rates 50 bp in April 2012, prior to which it had refrained from lowering the rates for three years. Chakravarty added he expected the RBI to cut interest rates by another 25 bps by the end of this financial year and another 75 bps through the next financial year.

(Business Standard)