

Investment Climate: October 2015

There is a lot of optimism on the investment front with considerable progress made in terms of creating an enabling environment for doing business in India. India's rank in the list of World Bank's Ease of Doing Business has also improved this year based on the changes made in the structures to enable business. As this process started in 2014 when the new government took over, the response of industry in this regard may be evaluated.

The Department for Industrial policy and Promotion provides data on the number of proposals filed through IEMs (Industrial Entrepreneurs Memorandum), Letters of intent (LOI) and industrial licenses (DILs). This gives an idea of the interest shown by industry. Also the Department published data on the implementation of IEMs during the year which is probably more important as it goes beyond intent.

Investment proposals

Table 1 provides information on the number of industrial investment proposals over the last 5 years. The time periods refer to the calendar year while information for 2015 is for the 8 months period ending August. For the sake of comparability data for the same period of 2014 is also provided.

The table shows that since 2012 there has been a reduction in the number of investment proposals which reached a low of 1843 in 2015. In the present year, the number is higher than that in 2014, though in value terms the investment proposals is lower as in Table 2 at Rs 2.36 lkh crore as against Rs 3.32 lkh crore. Even for the current fiscal year, April to August proposed investment was lower at Rs 1.48 lkh crore as against Rs 2.34 lkh crore last year during the same period.

Table 1: Number of industrial investment proposals

	2011	2012	2013	2014	2014-Aug	2015-Aug
IEMs	3,868	2,826	2,365	1,801	1,228	1,302
LOIs	0	0	0	0	0	0
DILs	32	2	22	42	15	0
Total	3,900	2,828	2,387	1,843	1,243	1,302

Source: DIPP

Table 2: Proposed investment (Rs crore)

	2011	2012	2013	2014	2014-Aug	2015-Aug
IEMs	15,37,710	5,67,830	5,29,828	404,339	332,441	236,423
LOIs	0	0	0	0	0	0
DILs	2018	38	258	688	63	0
Total	15,39,728	5,67,868	5,30,086	405,027	332,504	236,423

Source: DIPP

It does appear that industry is still observing a wait and watch policy before investing in capital. RBI data on capacity utilization does reveal that the average rate is around 70-72% and with limited demand in major sectors there is no pressing need to invest right now. Further, higher interest rates (data is for the

period up to August before the RBI lowered the repo rate by 50 bps) could have been another reason not to invest as there are expectations of interest rates moving downwards further.

To get a perspective on where all investment is taking place currently in terms of interest shown, Table 3 provides data on the major sectors which have witnessed significant investment proposals for the period January-August 2015.

The leading sector is electrical equipment, which also is corroborated to an extent by the relatively high growth of 7.4% witnessed in the capital goods industry going by the IIP up to August. In fact for electrical machinery growth was 11.9% during April-August 2015. The other leading sectors in the top five industries are food processing, metals, chemicals and textiles. In terms of number of proposals textiles had the same as electrical machinery. These five industries accounted for almost 40% of total investment proposals and 45% of the total number. Cement and fuel have shares of above 3% while the rest are dispersed widely across various sectors.

Typically investment in equipment and metals could be indicative of infra activity while food and textiles would be related more with what is happening on the consumption side.

Table 3: Industry wise Investment proposals (Rs crore)

	Number	Share %	Investment value	Share
Electrical Equipment	172	13.21	50,235	21.25
Food Processing Industry	135	10.37	13,516	5.72
Metallurgical Industries	50	3.84	13,017	5.51
Chemicals(Except Fertilizers)	65	4.99	11,321	4.79
Textiles	171	13.13	10,426	4.41
Cement and Gypsum	40	3.07	9,062	3.83
Fuels	4	0.31	7,849	3.32
Sugar	31	2.38	5,946	2.51
Rubber Goods	20	1.54	5,228	2.21
Misc. Mechanical & Engg.	66	5.07	4,393	1.86
Drugs and Pharmaceuticals	52	3.99	4,162	1.76
Commercial/Office/Household equipment	28	2.15	3,896	1.65
Fermentation Industries	32	2.46	2,997	1.27
Transportation	1302	3.53	2,671	1.13
Total	1302	100	236,423	100

Source: DIPP

In terms of distribution across states, the dominance in 2015 has been by Gujarat, Karnataka and Chattisgarh followed by Maharashtra and Orissa. It may be remembered that in the World Bank Doing Business in States analysis. Gujarat, Orissa and Chattisgarh do feature in the top category of states in terms of ease of doing business and have been called 'aspiring leaders' wherein they satisfy between 50-75% of the targeted implementation agenda. Quite clearly investor interest has also been commensurate with the investor-friendly environment in the state. Further, the proximity to natural resources has also helped in increasing investment interest.

Table 4: Industrial Investment proposals: State wise (Rs cr)

State	No	Share %	Value	Share %
Gujarat	207	15.9	51,108	21.62
Karnataka	67	5.15	29,813	12.61
Chhattisgarh	37	2.84	24,616	10.41
Maharashtra	262	20.12	23,630	9.99
Orissa	17	1.31	17,931	7.58
Tamil Nadu	79	6.07	17,573	7.43
West Bengal	55	4.22	16,741	7.08
Andhra Pradesh	80	6.14	15,731	6.65
Madhya Pradesh	72	5.53	11,346	4.8
Uttar Pradesh	83	6.37	6,620	2.8
Rajasthan	54	4.15	5,301	2.24
Telangana	80	6.14	5,124	2.17
Uttaranchal	29	2.23	2,634	1.11
Others	180	13.83	8,255	3.51
Total	1302	100	236,423	100

Source: DIPP

Implementation of IEMs

Implementation of IEMs is probably a closer indicator to what is actually happening at the ground level. Table 5 shows the movement in this implementation over the last 5 years. After declining in 2011, the implementation increased in 2012 and fell marginally in 2013 and 2014. However, in 2015 so far, the value of IEMs implemented is lower than that last year during the same period.

Table 5: IEMs implemented

	Number	IEM implemented Rs crore
2010	636	29,735
2011	474	12,870
2012	574	82,156
2013	481	78,497
2014	340	78,747
2014 Aug	257	64,276
2015 Aug	297	37,915

Source: DIPP

The lower level of implementation can be related to two sets of conditions. The first would be overall business and demand conditions where companies would be waiting to witness a revival before investing. The second set of reasons pertain to other external factors that could come in the way such as getting clearances or in areas of land or environment which are typically the elements that have come in the way of investment.

Appendix 1 and 2 provide a distribution of IEMs being implemented for the period January-August 2015. Maharashtra, MP, Gujarat, Rajasthan and Karnataka dominate in terms of states while in terms of industry electrical equipment, sugar, textiles, cement and chemicals dominate.

Concluding remarks

1. While a lot has been done on the policy and administrative fronts to revive investment, there is still to be a turnaround at the ground level based on data till August 2015.
2. The states that have been attracting such investment are those which are higher up the order in terms of providing the right environment for doing business.
3. The industry-dispersion of investment proposals appears to fairly widespread though in terms of implementation, there is still inertia.
4. There is expectation that this will improve in the second half of the year based on the trends in industrial growth which appear to be positive. However, given that even the RBI has maintained a near status quo (albeit in the downward direction) for GDP growth, a recovery could be expected more likely in FY17.

Contact:

Madan Sabnavis
Chief Economist

madan.sabnavis@careratings.com
91-022-67543489

Jyoti Wadhvani
Associate Economist

jyoti.wadhvani@careratings.com
91-022-67543531

Disclaimer

This report is prepared by Credit Analysis & Research Limited (CARE Ratings). CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report.

Appendix 1: IEMs implemented state wise in 2015

	Number	Value
Maharashtra	49	7383
Madhya Pradesh	13	6682
Gujarat	49	4060
Rajasthan	18	3480
Karnataka	21	3248
Andhra Pradesh	37	2437
Chhattisgarh	5	2328
Uttarakhand	18	2288
Haryana	9	875
Uttar Pradesh	11	807
Total	297	37915

Appendix 2: IEMs implemented industry wise in 2015 (Rs cr)

	Number	Value
Electrical Equipment	17	10338
Sugar	21	5186
Textiles	41	3672
Cement and Gypsum	10	2251
Chemical other than Fert.	17	2093
Rubber Goods	6	1912
Food Processing Industry	35	1831
Metallurgical Industries	21	1554
Transportation Industry	5	1481
Drugs and Pharmaceuticals	15	1158
Total	297	37915