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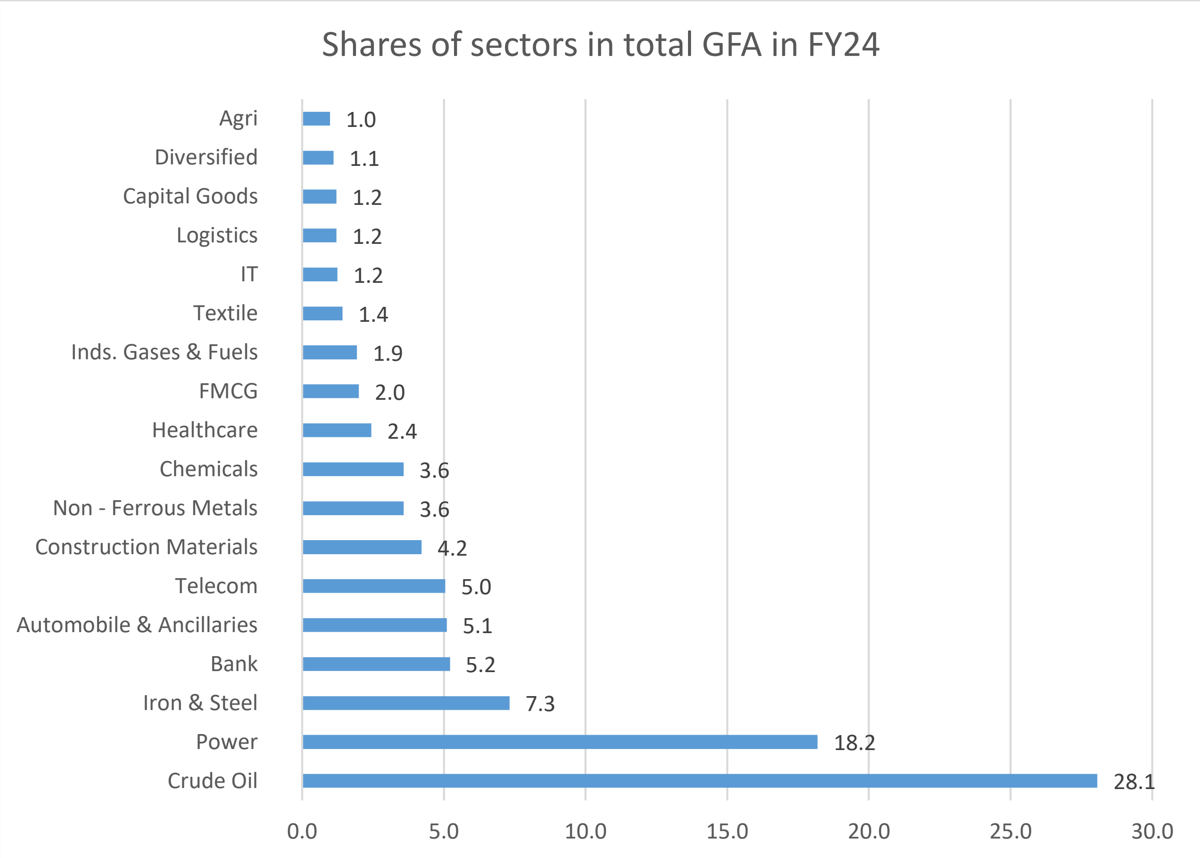
Capital formation in corporate sector in FY24

At the level of the economy, capital formation has shown some positive trends. In FY24, gross fixed capital formation ratio was 30.8% from 30.7% in FY23. In nominal terms growth was 9.9%. Against this background, the growth in gross fixed assets in the corporate sector can be positioned. Gross fixed assets includes also capital-work-in-progress. The suggestion from a set of 2165 companies is that there was a marginal slowdown in growth of GFA to 5.6% in FY24 from 5.9% in FY23. For this sample, GFA for FY24 was Rs 34.09 lakh crore.

The main drivers of capital formation in the corporate sector

The chart below gives the shares of the top 18 sectors, each which a share of more than 1%, in Gross fixed assets of the sample companies.



Source: BoB Economic research

Of the 36 sectors, half of them accounted for 94% of total assets. The top 5 industries accounted for 64% of assets. Hence the main thrust to growth is provided by crude oil, power, iron and steel, banking, and auto sectors. The first three are capital intensive sectors which are also related to the infrastructure development process in the country.

The table below gives information on the growth in GFA across the 36 sectors in FY23 and FY24. The sectors are listed in the order of size of GFA.

Growth in GFA across sectors (%)

Sector	Number	FY23	FY24
Crude Oil	20	10.6	8.1
Power	27	-2.7	-0.9
Iron & Steel	66	1.8	4.8
Banks	37	7.0	6.9
Automobile & Ancillaries	128	7.3	7.4
Telecom	19	8.5	6.1
Construction Materials	66	11.1	10.1
Non - Ferrous Metals	19	5.0	4.3
Chemicals	156	12.1	6.1
Healthcare	125	4.0	3.7
FMCG	88	8.5	7.7
Inds. Gases & Fuels	5	8.7	8.5
Textiles	144	10.2	3.9
IT	126	1.0	-4.8
Logistics	30	-3.5	2.8
Capital Goods	154	4.0	10.0
Diversified	9	13.9	18.1
Agri	82	7.4	5.3
Gas Transmission	6	13.0	9.6
Infrastructure	55	-0.5	1.1
Plastic Products	64	9.4	8.4
Retailing	22	21.1	21.6
Paper	24	1.0	4.2
Hospitality	40	5.5	7.2
Finance	277	28.6	27.7
Mining	8	11.9	21.1
Electricals	31	3.1	12.1
Media & Entertainment	50	28.9	1.3
Consumer Durables	30	20.0	15.7
Realty	62	31.0	-14.7
Insurance	8	8.1	9.1
Alcohol	9	8.6	2.2
Business Services	33	2.1	20.4
Diamond & Jewellery	13	1.3	23.3
Trading	104	-4.1	3.7
Others	28	10.4	21.5
Grand total	**2165**	**5.9**	**5.6**

Source: BoB Economic Research

Interestingly 50% of the 26 industry groups witnessed a decline in growth in GFA in FY24. Of the top 18 industries which dominate overall GFA (as seen in the chart), 11 witnessed slowdown in growth. This explains why there was a marginal slowdown in overall growth in GFA for the sample companies.

Significant declines in growth rates could be seen in oil, chemicals, textiles, gas transmission. Growth in case of power has been negative in both the years which does indicate that there is not much of capacity expansion within this sample (renewables are not covered in this sample). The decline in growth rate for oil is also indicative of a similar phenomenon. In case of textiles, overall slowdown in the readymade garments segment (-14.2%) due to lower exports could be the factor driving this tendency in investment. The chemicals segment too witnessed de-growth of 1.7% in FY24.

Media, consumer durables, and realty are other segments that have witnessed a decline in growth rates. This goes along with the narrative of relatively lower consumer spending which gets reflected in surplus capacity in case of consumer durables. Going by the IIP, growth for durables were 0.6% and 3.6% in the last 2 years following a sharp rise of 12.4% in FY22.

Sharp increases in growth were observed in case of capital goods, the diversified group of companies, mining, business services, and diamonds and jewellery. This can be corroborated with steady growth in production of capital goods (as per IIP) which was 6.2% in FY24. The same held for mining which was up by 7.5% and hence higher growth in assets can be linked to stable production trends.

Concluding remarks

The results of the sample companies can be taken to be indicative of capital formation activity in the corporate sector. Growth has slowed down for certain in FY24 and more importantly the performance has been selective and linked with sectors that have done well in terms of production. This also fits in with the picture at the macro level where gross fixed capital formation has remained virtually unchanged.

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