

ASSOCHAM

INVESTMENT

METER

Investment plans in Infrastructure Sector

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EXECUTIVE SUMMARY

- Investments announced in infrastructure sector by corporate India during October-December 2007-08, totaled Rs. 3,11,707 crore, however, it slumped to Rs. 46,328 crore in the same period of the current fiscal (2008-09), registering a sharp dip by 85 per cent.
- The share of infrastructure sector in total investments during the three month period (October-December) also reduced from 32.5 per cent in FY'08 to 11.3 per cent in FY'09.
- The number of projects announced by the domestic companies in infrastructure and sub-sectors declined from 64 in Q3 FY'08 to 18 in Q3 FY'08, registering a dip by 71.8 per cent.
- Only the other energy sector (including wind energy, geothermal energy, solar energy and natural gas) witness a growth of 19.3 per cent in Q3 FY 2008-09 as against the corresponding period of the previous fiscal.
- Infrastructure sub sectors including cement, shipping, warehousing and oil & petroleum sectors did not witness any major investment announcements during the third quarter of financial year 2008-09 as compared to the same period of the previous fiscal.

CONTENTS

1. INTRODUCTION

2. SECTOR WISE INVESTMENT PLANS

October-December 2008-09 over October-December 2007-08

3. TOP FIVE CORPORATE ANNOUNCEMENTS

October-December 2008-09

4. TOP FIVE CORPORATE ANNOUNCEMENTS

October-December 2007-08

Annexure

INTRODUCTION

Infrastructure sectors such as steel, power, cement, petroleum may face critical fund shortage in coming months as the private investment line up has almost dried up with corporate capex plans in various sub-sectors taking hit in the range of 40 to 98 per cent during the last three months, an analysis of ASSOCHAM Investment Meter (AIM) states.

Data Source

The Report prepared is based on the data tracked from various investments announcements planned by the Indian companies, in the domestic market in print and electronic media.

Time period

The data analyzed for the report include the time period October-December 2007-08 and 2008-09 respectively.

Methodology

The corporate houses that have expressed investment plans for a particular region have indicated a spread of 3-5 years for their plans to fructify.

Ranks have been assigned, based on the descending order of the amount of investment planned for the state. Comparative analysis has been drawn for the same time period of two different years.

India Inc. investment announcements are planned (not realized), hence industrialists express to invest large sum of amount in particular sector across 2-3 states, but they do not disclose the ratio of the sum in each state. Thus, to avoid the problem of double counting, ARB, divide the capex amount in equal ratio among the number of states where investment is planned.

According to the AIM study “**Investment plans in Infrastructure Sector**”, investments announced in infrastructure sector by corporate India during October-December 2007-08, totaled Rs. 3,11,707 crore, however, it slumped to Rs. 46,328 crore in the same period of the current fiscal (2008-09), registering a sharp dip by 85 per cent.

The economy faces liquidity crunch and global financial crisis dampening fresh investment announcements by business leaders in the much required infrastructure sector, as about USD 500 billion is required for financing infrastructure projects during the 11th Plan period (2007-2012).

The share of infrastructure sector in total investment plans during the three month period (October-December) also reduced from 32.5 per cent in FY’08 to 11.3 per cent in FY’09.

“Most of domestic private players are unable to take up new projects in infrastructure segment, as even the prior announced investments are having difficulties due to acute shortage of funds faced by the industry”, said Mr. Sajjan Jindal, President, Assocham.

SECTOR WISE INVESTMENT PLANS

October-December 2008-09 over October-December 2007-08

The number of projects announced by the domestic companies in infrastructure and sub-sectors declined from 64 in Q3 FY’08 to 18 in Q3 FY’09, registering a dip by 71.8 per cent.

Among the 11 sub infrastructure sectors, only the **other energy sector** (including wind energy, geothermal energy, solar energy and natural gas) witness a growth of 19.3 per cent in Q3 FY 2008-09 with capex announcement totaling Rs. 12,200 crore against Rs. 10,222 crore in the corresponding period of the previous fiscal.

The major down fall was witnessed in the **miscellaneous infrastructure sector** (including plans for airport projects, car parking multiplex projects etc.) plunging 98.2 per cent in the third quarter of FY'09 with capex announcements of Rs. 108 crore as compared to Rs. 6,185 crore in the same period of the previous fiscal.

The one time investment bullish sectors like power and steel have now dried up in attracting fresh announcements in the third quarter of the financial year 2008-09. In the **steel sector** capex plans thwarted by a whooping 95.9 per cent in the Q3 FY'09 as amount totaled meekly Rs. 4,950 crore as against Rs. 1,22,950 crore in Q3 FY'08.

Similarly, the attraction of India Inc. towards **power sector** became dull as investment plans slipped to Rs. 3,520 crore in Q3 FY'09 in comparison to Rs. 46,123 crore in the corresponding period of the previous financial year, recording a de-growth of 92.3 per cent.

With the rise in the base of the telecom subscribers, the **telecommunication sector** needs additional fresh investments to develop related infrastructure projects with an aim to provide accessibility to all. However, capex plan for the sector got stabbed by 40.2 per cent, as sum of planned announcements stood at Rs. 19,100 crore during the third quarter of FY'09, as compared to Rs. 31,980 crore in the same period of FY'08.

Despite intense pressure on the Indian **ports and logistic sectors** for up-gradation with requirements of massive investments for developing new facilities, in the present scenario India Inc shy away in announcing investments in both the sectors, thus, investments plans for the sector witnessed a drop by 10.4 per cent and 16.9 per cent respectively in Q3 FY'09 against Q3 FY'08.

Until third quarter of financial year 2007-08, capacity crunch forced India Inc. to announce capex worth Rs. 19,200 crore in then much in demand **cement sector**. However, in the same period of the current financial year, slowdown in construction and real estate sectors has kept away corporate India expressing investments in the sector.

Similarly, **oil & petroleum, shipping and warehouse** have not witness any major announcements in the sectors respectively by domestic corporate houses in Q3 FY'09 as against capex plan totaled to Rs. 56,100 crore, Rs. 11,536 crore and Rs. 120 crore respectively during Q3 FY'08.

TOP FIVE CORPORATE ANNOUNCEMENTS

October-December 2008-09 over October-December 2007-08

October-December 2008-09... ..

Among the top five capex announcements by India Inc. during the three month period (October-December) 2008-09 for the infrastructure sector, in October 2008, **Indus Tower Ltd**, had announced the biggest capex plan worth Rs 11,000 crore to set-up telecom towers in rural area, which will lead the next wave of wireless growth by the end of the current fiscal.

Again in October 2008, **Cairn India Ltd**, expressed to invest Rs. 11,000 crore in Rajasthan to develop energy project including a modern processing terminal at Mangala along with a 600 km evacuation pipeline in the West Coast by 2009-10

During October 2008, **Idea Cellular**, the third largest telecom player (among the GSM provider), announced capex plan worth Rs. 8,000 crore with an intention to expand its operations by the end of 2008-09.

In the month of December 2008, the entity of Navayuga Group, **Navayuga Engineering (NECL)**, expressed to invest Rs. 6,000 crore for setting up deep water, all weather port at Astaranga (Orissa).

With a capex announcement of Rs 4,700 crore in October 2008, Baldota Group had plans for setting up a steel plant that will mostly manufacture products for passenger cars as well as auto parts consisting of 1.2 million tonnes (mt) capacity by the end of 2010.

October-December 2007-08... ..

During the third quarter of the financial year 2007-08, the Indian business leaders expressed to invest large sum of amounts in three prominent sub-sectors of infrastructure including steel, power and oil & petroleum.

In November 2007, **Abhijeet Group** announced maximum capex worth Rs. 55,000 crore to build steel and power plants in Jharkhand, Maharashtra and West Bengal.

The next top four investment announcements were during the month of October 2007. The second and third highest capex was planned by **Essar Oil and ONGC** worth Rs. 24,000 crore and Rs. 20,000 crore respectively. The former expressed its investment intention to triple the capacity of its vadinar refinery to 34 million

tonne per annum by 2010. However, the later oil & petroleum giant want to utilize the amount to produce 25 million standard cubic meters of oil per day.

SAIL Ltd and L&T, planned to invest Rs 20,000 crore each for increasing steel production capacity and power generation respectively.

TOP 5 INFRASTRUCTURE CAPEX ANNOUNCEMENTS			
October-December 2008-09		October-December 2007-08	
Company Name	Proposed Capex (in Rs. Crore)	Company Name	Proposed Capex (in Rs. Crore)
Indus Tower	11,000	Abhijeet Group	55,000
Cairn India Ltd	11,000	Essar Oil	24,000
Idea Cellular Ltd	8,000	ONGC	20,000
Navayuga Engineering (NCEL)	6,000	SAIL Ltd	20,000
Baldota Group	4,700	L&T	20,000

Source: Assocham Investment Meter (AIM)

ANNEXURE

Sectors	Growth rate (in %) Q3 FY'09 over Q3 FY'08
Other Energy*	19.35
Logistics	-16.93
Telecommunication	-40.28
Ports	-10.45
Infrastructure (miscellaneous)**	-98.25
Power	-92.38
Steel	-95.97
Cement	-
Oil & petroleum	-
Shipping	-
Warehousing	-
TOTAL (INFRASTRUCTURE)	-85.14

NOTE: 1- Other Energy* includes wind, geothermal, natural gas and solar.

2- Infrastructure (misc) ** include car parking multiplex, airport project etc.

3- The last four sectors in the above table did not witness any major investment announcements during Q3 FY'09.

Source: ASSOCHAM Investment Meter (AIM)