Private Sector CAPEX Investment

> Mains Syllabus: GS III- Indian Economy and issues relating to planning, mobilization, of resources, growth, development and employment.

Why in the News?

The Ministry of Statistics and Programme Implementation (MoSPI) has released the first ever “Forward-Looking Survey on Private Sector CAPEX Investment Intentions”.

What is the Forward-Looking Survey on Private Sector CAPEX Investment Intentions?

- **Survey background** - In 2022–23, the Parliamentary Standing Committee recommended that the Ministry of Statistics and Programme Implementation (MoSPI) develop a comprehensive methodology to capture capital expenditure (CAPEX) data from the private sector.
- **Objective of the CAPEX survey** - To estimate the CAPEX trends of private corporate sector enterprises
    - From the past three financial years (2021-22, 2022-23 & 2023-24)
    - Anticipated capital expenditure for the current year (2024-25) and upcoming financial years (2025-26).
    - The breakdown of investments by asset type.
- **Survey period** - National Statistical Office (NSO) conducted the inaugural Forward-Looking Survey on Private Sector CAPEX Investment Intentions between November 2024 and January 2025.
- This marked the first initiative of MoSPI to engage the corporate sector through a self-administered, web-based survey platform to collect structured CAPEX data.
- **Coverage** - The eligibility criteria were as follows
    - Manufacturing enterprises with an annual turnover of Rs.400 crore or more
    - Trade enterprises with an annual turnover of Rs.300 crore or more
    - Other enterprises with an annual turnover of Rs.100 crore or more
- Based on these criteria, the final survey frame consisted of 16,025 enterprises.

What are the significances of the survey?

- **Valuabe data asset** - Comprehensive data on CAPEX will be a valuable asset for a wide range of stakeholders, including government departments, private enterprises, trade associations, researchers, and other relevant entities.
- **Evidence-based policy formulation** - It will enable evidence-based policy formulation through the analysis of trends in future investments.

- **Data-driven investment decisions** - A clear understanding of CAPEX patterns and scale can assist enterprises in making strategic, data-driven investment decisions, guided by the insights derived from survey findings.

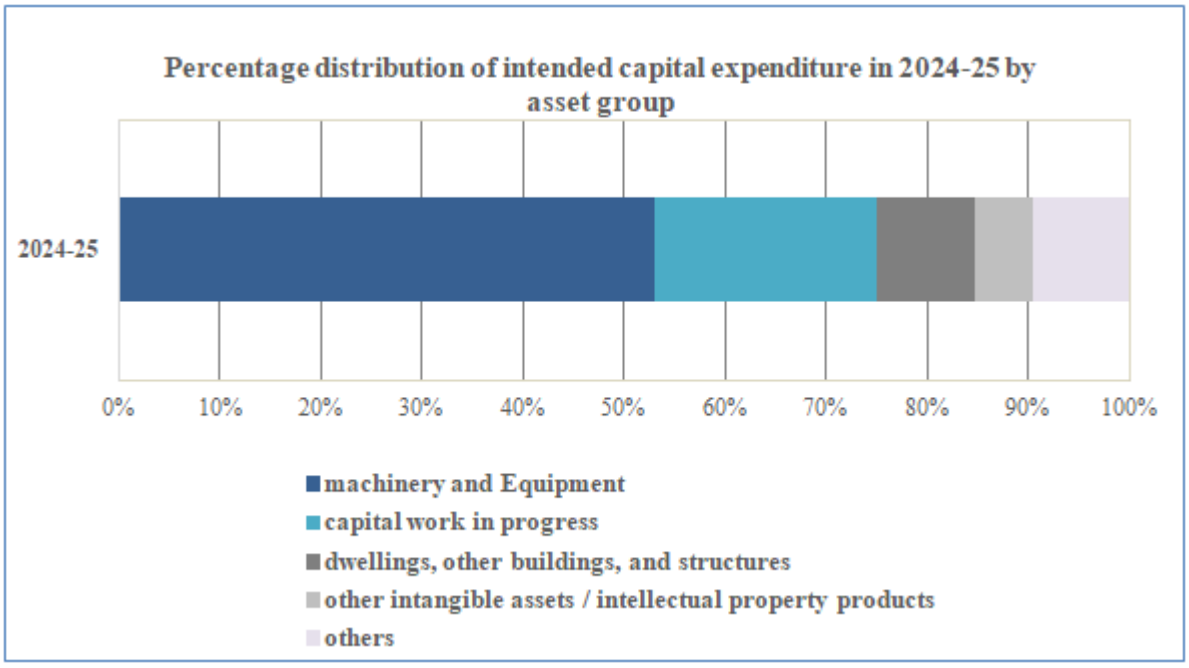
What are the key findings of the survey?

- **Average Gross Fixed Assets per enterprise** - It is increased from Rs.3,151.9 crore in 2021–22 to Rs.3,279.4 crore in 2022–23 (4% growth), and further to Rs.4,183.3 crore in 2023–24, reflecting a significant 27.5% growth in the private corporate sector.

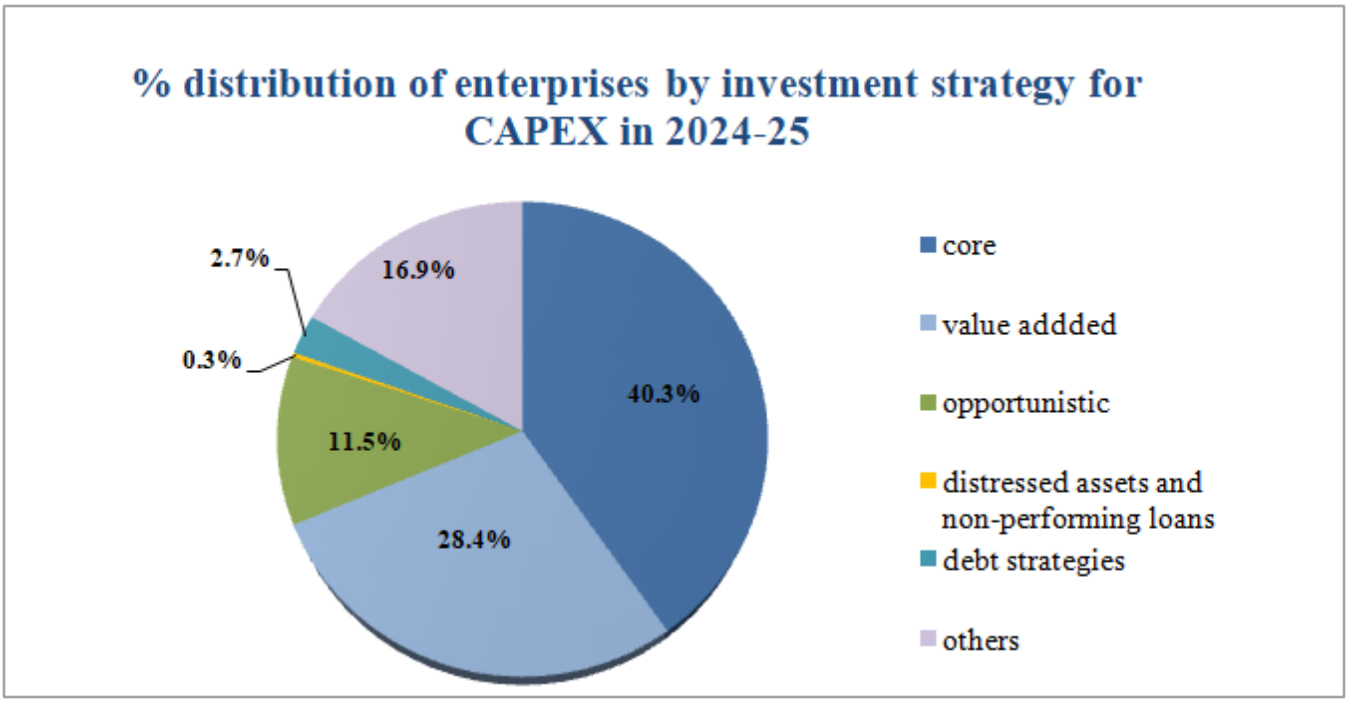
(in ₹ Crore)

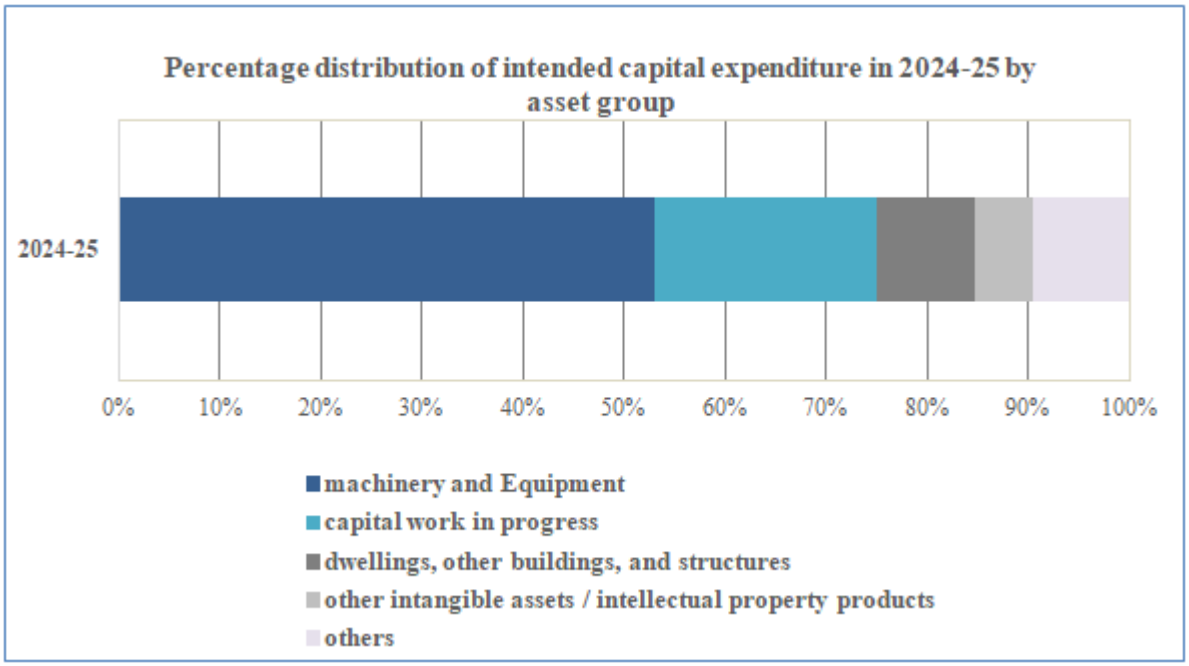
Actual CAPEX in 2021-22	Actual CAPEX 2022-23	Actual CAPEX 2023-24	Intended CAPEX in 2024-25	Intended CAPEX in 2025-26
394,681.5	572,199.7	422,183.3	656,492.7	488,865.5

- **Future CAPEX estimation** - The estimated CAPEX per enterprise for the years 2021–22, 2022–23, and 2023–24 was Rs.109.2 crore, Rs.148.8 crore and Rs.107.6 crore respectively.
- **Rate of increase** - Overall increase of 66.3% in aggregate CAPEX (unweighted) over the four-year period from 2021-22 to 2024-25.
- **Asset wise investment** - Out of the total capital expenditure provisionally incurred in the year 2024-25, nearly 53.1% were utilized for purchasing machinery & equipment.
- The amount allocated for 'capital work in progress' (22.0%) and purchasing 'dwellings, other buildings and structures' (9.7%) had the next highest share of allocation.

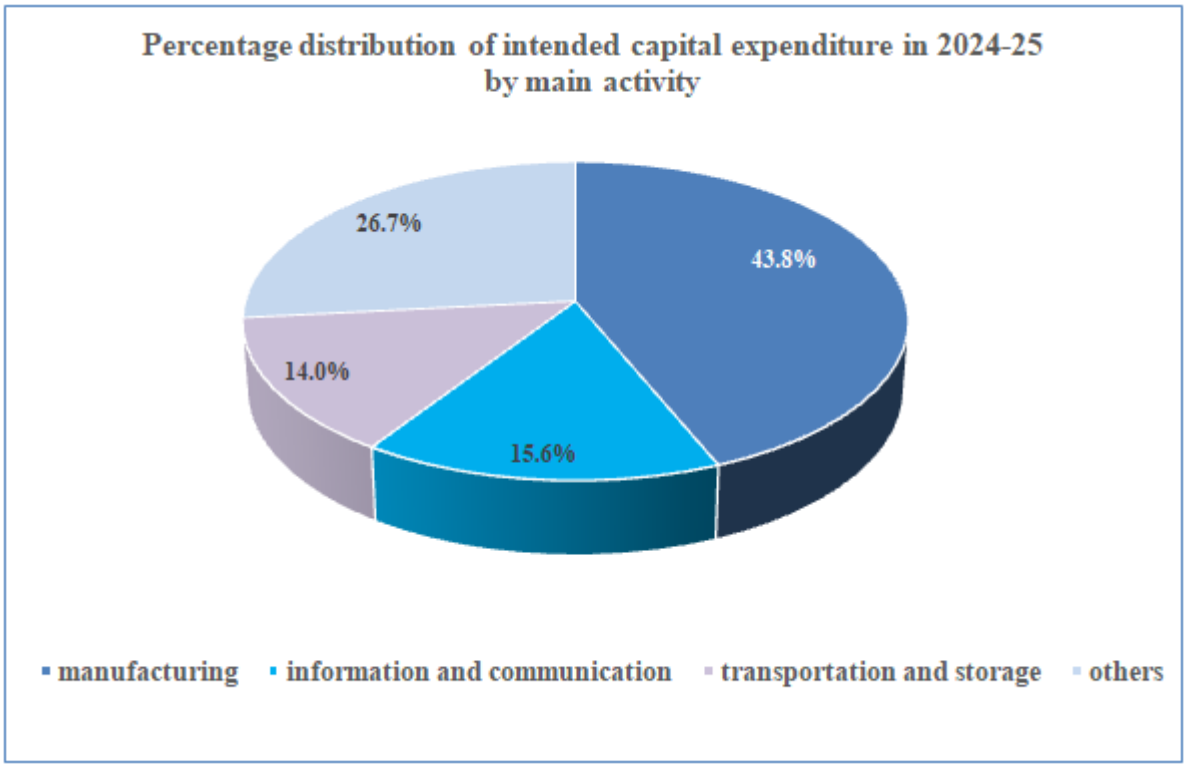


- **Strategy of investment** - The strategy of 40.3% of enterprises is to undertake CAPEX on core assets during 2024–25, followed by 28.4% to invest in value addition to existing assets.

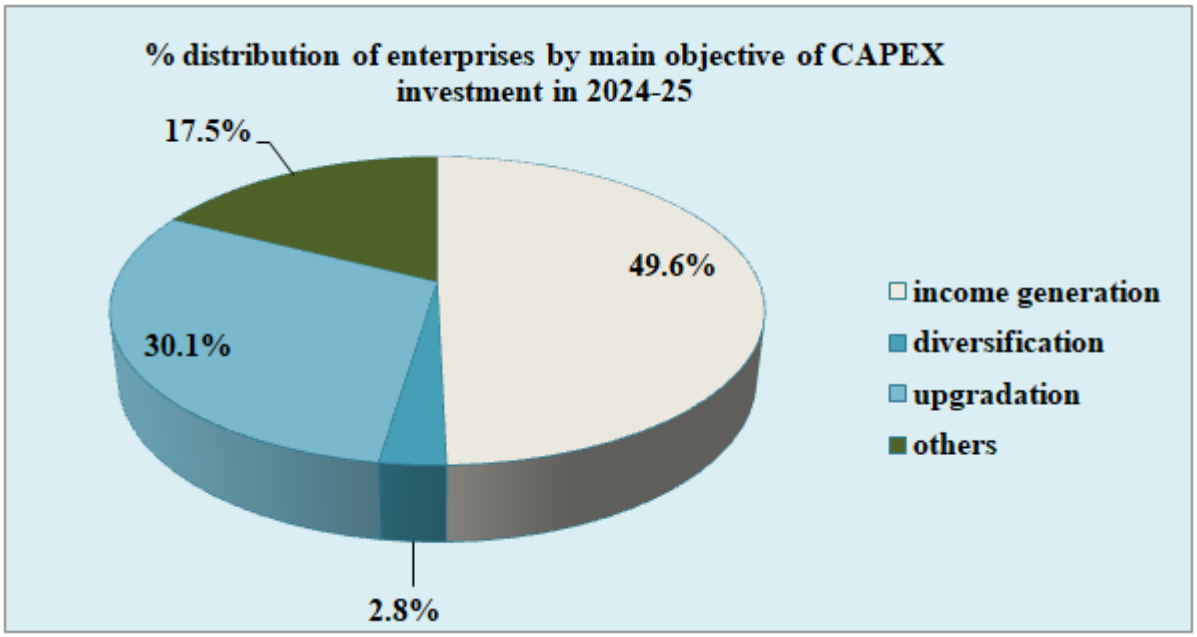




- **Sectoral investment** - Among the sectors, manufacturing enterprises account for the largest share at 43.8%, followed by those in 'Information and Communication Activities' (15.6%) and 'Transportation and Storage Activities' (14.0%).



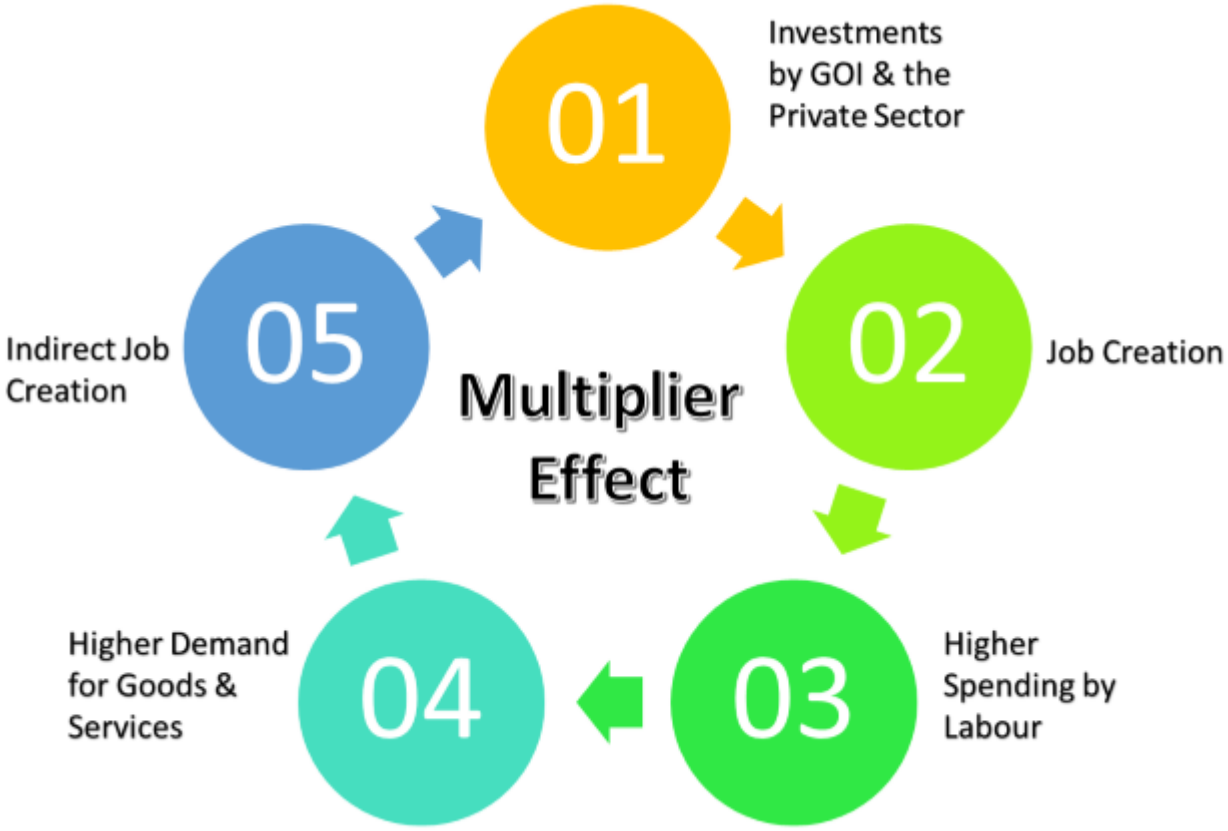
- **Objectives of investment** - The survey estimates indicate that nearly 49.6% of private corporate sector enterprises undertook CAPEX in 2024–25 primarily for income generation.



What are the significances of capital expenditure?

- **Enhances the stock of physical assets** - Capital expenditure (CAPEX) plays a crucial role in contributing to national investment and enhancing the stock of physical assets within the economy.
- **Improves the operational efficiency of economic activities** - It leads to the creation of long-term assets, which not only generate revenue for many years but also improve the overall operational efficiency of economic activities.

- **Accelerates economic growth** - CAPEX is fundamental to expanding production capacity, thereby serving as a catalyst for accelerated economic growth.
- **Creates livelihood** – This economic growth, in turn, supports job creation and enhances labour productivity.
- **Innovation** - Private enterprises drive innovation and entrepreneurship, which are essential for sustained economic progress.
- They often lead in research and development spending, collaborating with universities and institutions to bring new technologies and business models to market.
- **Infrastructure development** - Private investments provide necessary infrastructure that is sustainable, reliable, and technologically advanced, supporting modern economic activities.



What are the challenges in private sector capital investment?

- **Geopolitical uncertainties** - Global economic instability, geopolitical risks, and market volatility create apprehension among private investors, leading to cautious investment behavior.
- For example, the current tariff war among the countries after the government change in USA.
- **Financial risks** - Corporate prudence has increased due to high-profile bankruptcies, making firms prioritize financial stability over expansion.
- **Financial accessibility barrier** - Access to finance remains a significant barrier, with high interest rates, short loan tenors, and lack of concessional finance limiting investment capacity.
- **Falling household savings rate** – It affects private sector investment primarily by reducing the availability of domestic capital for investment and increasing reliance on

external borrowing, which can raise financing costs and dampen investment growth.
- **Market limitations** - Market barriers such as incomplete or asymmetric information reduce investor confidence.
- **Technological limitations** - Availability , cost of new technologies and high gestation period pose challenges for private investments in innovative sectors.

What lies ahead?

- To improve private sector capital expenditure (capex) investment, several strategic measures and policy actions can be taken to enhance efficiency, align investments with long-term goals, and create a conducive environment for sustained private investment growth.
- Governments (National and State) can stimulate private investment by offering incentives such as Production Linked Incentive (PLI) schemes, improving ease of doing business, and ensuring policy stability.
- Access to affordable finance need to be improved by developing long-term credit facilities, reducing interest rates, and expanding venture capital availability.
- Transparency and information flow could be enhanced reduce market asymmetries and build investor confidence.

References

PIB | Forward-Looking Survey on Private Sector CAPEX Investment Intentions

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