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CORPORATE INVESTMENT IN 1976 :

A FORECAST

by

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CORPORATE INVESTMENT IN 1976

ABSTRACT

Investment in the corporate sector showed a substantial decline during 1975. However, the prospects for 1976 appear to be better even though corporate investment in 1976 may not exceed the level attained in 1974.

The study entailed an analysis of all the projects sanctioned by the all India Term Lending institutions. Capital expenditures incurred on all projects sanctioned by these institutions during 1974 amounted to Rs. 681 crores. But during 1975 these expenditures came down to Rs. 487 crores, thus indicating a steep fall in corporate investment in 1975. As of now the capital expenditure during 1976 would be of the order of Rs. 444 crores. If we add to this the expenditures that are likely to be incurred on projects to be approved during 1976 itself, one can hope for the corporate investment in 1976 to reach at best the level attained in 1974.

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CORPORATE INVESTMENT IN 1976 : A FORECAST

G. RANGARAJAN

In the mixed economic system that we are operating, the level of corporate investment plays a vital role. Since the bulk of the investment in the organised industry in the private sector comes through the corporate sector, the quantum and composition of corporate investment need to be carefully watched by the planners. In this paper an attempt is made to forecast the likely level of capital expenditure by the corporate sector in 1976.

Forecasting Technique

The technique followed in this paper to forecast the corporate investment relies on the data available with the term lending institutions. Like investment intentions, the data on time phasing of capital expenditures of projects approved by these institutions constitute a proper type of 'anticipatory data' for forecasting. The details of the methodology followed has been explained by the present author in his earlier writings.¹ Most projects in the corporate sector approach one or the other of the term lending institutions for obtaining finance. The companies provide to the lending institutions detailed data on the total cost of the project as well as the expenditures to be incurred in each of

the years during the period of construction. By aggregating the information on the phasing of capital expenditure of the projects sanctioned in all the previous years, it should be possible to forecast capital expenditures for any year. Obviously the estimates arrived at refer strictly to the projects which have taken assistance from the term lending institutions. Nevertheless since most of the projects come to the financial institutions for assistance this estimate can be regarded as a true reflection of the behaviour of the entire corporate sector.

The limitations of this approach have also been pointed out by the author in his earlier writings. The validity of the estimates depends upon how closely companies adhere to the expenditure pattern outlined in the project proposal. In the case of projects sanctioned more than a year ago, an attempt is made to obtain the revised phasing of capital expenditures. The cost over-run of the projects by itself is not a limitation. So long as companies come to the lending institutions for financing the cost over-run they would have been included in our estimates. We are making an attempt to look more closely into the differences between the actual phasing of capital expenditures and the planned phasing of capital expenditures. When that study is completed it would perhaps be possible how the estimates arrived at could be modified to take into account this divergence.

Another difficulty in using this particular method of forecasting is that part of the capital expenditures to be incurred in any particular year comes out of the projects sanctioned in that very year itself. The proportion of such expenditures to the total expenditures have varied from year to year. For example, in 1972 out of a total expenditure of Rs. 463 crores, Rs. 153 crores came out of the projects sanctioned in that year. In 1973, out of a total of Rs. 531 crores, Rs. 156 crores came out of the projects sanctioned in that year. The corresponding figures for 1974 are Rs. 681 crores and Rs. 198 crores. Thus a part of the total capital expenditures to be incurred in a year will largely depend upon factors that operate within that year which cannot be forecast by our methods. While the pending applications with the term lending institutions can give some indication they may not provide completely a satisfactory indicator. However, our method definitely indicates the minimum investment that will be forthcoming.

In our study we have concentrated on the three term lending institutions, the Industrial Development Bank of India, the Industrial Credit and Investment Corporation of India and the Industrial Finance Corporation of India, though there is a need to enlarge the number of the institutions covered. With the kind permission of these three institutions, we have over years been able to collect the data on all the projects sanctioned by them. We have added to the data previously collected, the data on projects sanctioned in 1975 and made a forecast for 1976. Table 1 provides the basic data needed for forecasting.

Read horizontally, each row indicates the expenditures to be made in each year out of the projects approved in a particular year. Read vertically, each column indicates the total expenditures to be incurred in each year.

Forecast and Actuals

For the past several years using the technique outlined earlier, the author has tried to make a forecast of corporate investment. Part of the difficulty in being able to judge the effectiveness of our method lies in the fact that there is no official series on corporate investment. The Reserve Bank of India provides data on capital formation with respect to the sample companies studied by them. Since 1962-63 they have not given the blown up figures for the entire corporate sector. The CSO and Economic Times do publish their own series on capital formation. But a comparison of the two series indicates that there are many years in which there is striking difference between the two estimates. Perhaps the estimates provided by us come somewhat closer to the Economic Times series. For example, the substantial increase in gross fixed assets formation noted by the Economic Times for 1974 was well captured by our forecast.

Picture for 1975

From Table 1, it can be seen that the capital expenditure in 1975 would be Rs.487 crores, compared to the total expenditure of Rs. 681 crores in 1974. Thus gross capital formation in fixed assets

showed a substantial decline in 1975. They are also below the level reached in 1973. In January 1975, we made the forecast that capital expenditures in 1975 would at best come to the level of 1974. In fact it was pointed out that for this to happen there should be substantial investment activity in 1975. In retrospect we can note that during 1975, capital expenditures coming out of project sanctioned in that year amounted only to Rs. 114 crores. In contrast, the corresponding figure for 1974 was Rs. 198 crores. This is in spite of the fact that the total cost of the projects approved in 1975 at Rs. 783 crores was higher than the total cost of the projects approved in 1974 at Rs. 625 crores. The comparatively smaller amount of capital expenditures in 1975 coming out of the projects sanctioned in that year must be attributed partly to the difficulties in raising the necessary funds.

All the capital expenditures indicated are in current prices. The cost estimates of projects sanctioned in any year would be at the price level of that year. Thus when we are aggregating expenditures of projects sanctioned in the various years, there is need to reduce it to a common price level. We have deflated all the elements in the columns of 1974 and 1975 by a price index.² Thus it is seen that at 1960-61 prices total capital expenditures for 1974 would be Rs. 331 crores and those for 1975 would be Rs. 204 crores.

Pattern of Capital Expenditures in 1975

Table 2 provides an industry-wise break-up of the capital expenditures to be incurred in 1975. 'Minerals and Metals' account

for 24% of the total capital expenditures. The share of this group has remained the same as in the previous year. Chemicals and pharmaceuticals at 22% showed a considerable decline from the previous year's share of 30%. The share of Transport including investment in scooters and cycles showed a substantial increase in 1975. The share of the engineering industries continues to be small.

New Commitments in 1975

We have done a detailed analysis of the projects sanctioned in 1975. Table 3 provides an industry-wise break-up of the new commitments made in 1975. As mentioned earlier, the total cost of the projects sanctioned in 1975 came to Rs. 783 crores. Automobiles, including scooters and cycles accounted for approximately 20 per cent of the total cost. In 1974, the lion's share went to investment in Rubber and Rubber products. Investment in cement showed a substantial increase in 1975. As against one per cent of the total commitments in 1974, cement accounted for 12 per cent of total commitments in 1975. As in the previous year, there was little investment going into fertilizer.

The total number of projects sanctioned in 1975, came to 154. The distribution of this total among the various industry groups is also given in table 3. It may be worthwhile to note that 63 projects, that is 40 per cent of this total, will take more than two years to complete. In 1974, only 27% of the projects sanctioned had a completion time of more than two years. This may be partly explained by the shift in the composition of new commitments. There are 32 projects in the group 'Metal and Metal products.' Of these 14 will take more than two years to complete.

Forecast for 1976

Based upon the projects sanctioned upto the end of 1975, the total capital expenditures to be incurred in 1976 comes to Rs. 443 crores. To these must be added the expenditures to be made out of projects sanctioned during 1976. Since the total expenditures incurred in 1975 came to Rs. 487 crores, one can safely assert that corporate investment in 1976 will be higher than what it was in 1975. But this is not saying much since 1975, as already noted, experienced a substantial decline compared to 1974.

For investment in 1976 to reach the level attained in 1974, capital expenditures to come out of the new commitments made in 1976 must be Rs. 200 crores. Such a large expenditure did occur in 1974, where as in 1975 it was only half of that figure. The number of applications pending with the institutions now is substantially the same as it was last year. Taking all these factors into account, one might say that corporate investment in 1976 will be higher than that in 1975 but will not exceed the level attained in 1974.

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NOTES

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1. Samuel Paul & C. Rangarajan, Short Term Investment Forecasting, Macmillan, 1974.
 - C. Rangarajan, "Forecasting Capital Expenditure in the Corporate Sector", Economic and Political Weekly, December 19, 1970.
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2. The price index used for deflation was Index Number of Wholesale Prices - Machinery Other Than Electrical (1961-62=100). Source: Reserve Bank of India Bulletin. There is, however, a feeling that this index underestimates the increase in project costs.

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TABLE 1 : PHASING OF CAPITAL EXPENDITURE OF PROJECTS SANCTIONED BY ICICI, IFC AND IDBI, 1966 TO 1975

(Rs. in lakhs)

Year of Sanction	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
1960	72	39	44												
1961	212	76	41	21											
1962	260	238	134	52	26										
1963	1738	155	112	80	63	53	40	30							
1964	3498	1447	354	295	153	79	47	28	12	2					
1965	10147	7227	1897	754	449	203	184	135	21						
1966	5994	7393	6202	4930	2397	1127	623	397	359	151					
1967	201	4651	12160	9407	4377	2041	424	308	190	138	23	3	12		
1968		232	4276	9170	6655	4219	2768	1711	178	110	53	5			
1969			74	8914	14168	7859	6213	2172	445	164	54	12			
1970			279	74	4545	7817	6704	2193	647	403	176	332	315		
1971				63	766	7600	10990	9062	4487	854	396	250	260	238	
1972						762	15288	17531	11778	4036	977	357	283	229	
1973							2652	15622	26183	11053	5167	4046	1003	836	
1974						95	361	3889	19832	20413	14411	2193	1245		
1975								17	4016	11423	23122	21535	11854	5200	879
TOTAL	22131	21468	25573	33760	33599	31855	46294	53095	68148	48747	44379	28743	14972	6503	879

TABLE 2 : INDUSTRYWISE EXPECTED CAPITAL EXPENDITURE FOR
1972, 1974, 1975 & 1976 FOR PROJECTS SANCTIONED
BY ICICI, IFC AND IDBI

(Rs. in lacs)

<u>Industry</u>	<u>1972</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
1. Chemical and Pharmaceuticals	12786 (28)	21689 (32)	10790 (22)	4056 (9)
2. Electrical	2301 (5)	2622 (4)	2825 (6)	3521 (8)
3. Engineering	5698 (12)	3647 (5)	3524 (7)	3022 (7)
4. Jute	450 (1)	179	116	31
5. Minerals & Metals	7076 (16)	17291 (25)	11696 (24)	10233 (23)
6. Paper	3333 (7)	3766 (6)	1713 (3)	1165 (3)
7. Textiles	4297 (9)	1921 (3)	2222 (5)	1422 (3)
8. Transport	2751 (6)	6651 (10)	10116 (21)	16088 (36)
9. Cement	1043 (2)	1644 (2)	1225 (2)	1156 (3)
10. Miscellaneous	6544 (14)	8538 (13)	4790 (10)	3685 (8)
TOTAL	46279 (100)	68148 (100)	49017 (100)	44379 (100)

(Figures in brackets refer to % to total)

TABLE 3 : INDUSTRYWISE TOTAL CAPITAL COST AND PHASING OF CAPITAL EXPENDITURES ON PROJECTS SANCTIONED BY ICICI, IDBI & IFCI DURING 1975

(Rs. in lakhs)

INDUSTRY	Total Capital Cost Rs.	Phasing of Capital Expenditure					No. of Projects	Completion expected in				
		1974	1975	1976	1977	1978 and onwards		The Same Year	The Next Year	The Year After	Four or More Years	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	
Automobiles and Cycles	14560 (19)	1218	2601	3509	2970	4262	11	2	2	4	3	
Cement	9458 (12)	733	922	1119	1520	5364	3	-	1	1	1	
Chemicals and Petrochemicals (except fertilizers pesticides,	9343 (12)	170	1121	2221	4296	1535	17	1	6	6	4	
Electrical Equipment	2101 (3)	174	397	648	598	64	10	2	5	3	-	
Electricity, Gas & Steam	3006 (4)	560	873	1311	229	33	2	1	-	1	-	
Fertilizers and Pesticides	1540 (2)	-	1540	-	-	-	1	1	-	-	-	
Food Products (other than sugar,	189	-	75	114	-	-	3	-	3	-	-	
Glass, Pottery etc.	2068 (3)	160	168	985	752	3	11	3	3	5	-	

(Table 3 : Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Machinery Manufacture (other than electrical)	4275 (5)	105	321	1831	1636	382	17	-	8	6	3
Metals and Metal Products	13052 (17)	111	1150	4609	6094	1088	32	12	6	11	3
Printing and Publishing	-	-	-	-	-	-	-	-	-	-	-
Pulp, Paper and Paper Products	3190 (4)	46	159	810	503	1652	8	-	5	1	-
Rubber Products	9248 (12)	227	538	2488	2385	3610	6	2	1	1	-
Shipping	1150 (1)	-	-	1150	-	-	1	-	1	-	-
Sugar	835 (1)	90	216	340	189	-	2	-	1	1	-
Textiles	2349 (3)	125	620	1187	358	59	10	1	6	3	-
Wood, Cork and Hardboard	194	56	63	75	-	-	2	1	1	-	-
Miscellaneous	1801	258	649	525	205	164	18	11	5	-	2
TOTAL	78359	4033	11423	23122	21535	18246	154	37	54	43	19