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CORPORATE INVESTMENT IN 1977: A FORECAST

by

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Indian Institute of Management
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CORPORATE INVESTMENT IN 1977: A FORECAST

C. Rangarajan

S u m m a r y

There has been a substantial pick up in private corporate investment in 1976 as compared to 1975. Corporate investment in 1977 would be higher than that reached in 1976. It is likely to reach in nominal terms the level attained in 1974, which is the best year so far. However, in real terms the 1974 peak will not be reached.

This 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 amounted to Rs. 530 crores in 1975. But during 1976 these expenditures are likely to be Rs. 637 crores, thus indicating a pick up in corporate investment. Since as of now the capital expenditures likely to be incurred in 1977 are of the order of Rs. 512 crores there is every possibility that corporate investment in 1977 would exceed the level reached in 1976. It is, however, to be noted that a higher level of corporate investment in current prices does not indicate a rise in investment in real terms.

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CORPORATE INVESTMENT IN 1977 : A FORECAST

C. Rangarajan

Even though public investment is becoming increasingly a larger proportion of total investment, the quantum and composition of investment in the private corporate sector continue to have an important influence on the economy. In view of the many concessions that have been granted in the past year and a half to promote investment in private sector, it is also interesting to find out what impact these concessions have had on corporate investment. In this paper an attempt is made to forecast the likely level of capital expenditures by the private corporate sector in 1977.

Forecasting Technique

The technique followed in this paper to forecast corporate investment relies on the data available with the term lending institutions on the phasing of capital expenditures of projects approved by them. These may be regarded as a kind of 'anticipatory data' for forecasting. The details of the method followed have 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 the lending institutions with data not only on the total cost of the project but also the capital expenditures to be incurred in the various years. These information form part of the cash flow statements attached to the proposals. By aggregating the information on the phasing of

capital expenditure of proposals 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 enterprises which have taken assistance from the term lending institutions.

Nevertheless since most of the companies come to the financial institutions for assistance this estimate can be regarded as a true reflection of the behaviour of the entire corporate sector.²

One difficulty in using this particular method of forecasting is that part of the capital expenditures to be incurred in any year comes out of projects sanctioned in that very year itself and we have no information on this. The proportion of such expenditures to the total expenditures have varied from year to year.

Capital Expenditures incurred in a year out
of projects sanctioned in the same year

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(Rs. in crores)

Year	Capital expenditure on projects sanctioned in the year	Total capital expenditure to be incurred in the year	Percentage
			<u>Col 2</u> <u>Col 3</u>
(1)	(2)	(3)	(4)
1972	152	463	32.8
1973	156	531	29.4
1974	198	681	29.1
1975	114	530	21.5
1976	194	637	30.5

Thus part of the capital expenditures to be incurred in a year will largely depend upon the factors that operate within that year and these cannot be forecast by our model. While the pending applications with the term lending institutions can give some clue they do not provide a satisfactory indicator. However, this method atleast indicates the minimum investment that will be forthcoming.

The other limitations of this model of forecasting have 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. The cost of over-run of the projects by itself is not a limitation. So long as companies approach the term lending institutions for financing the cost over-run they would get incorporated in our estimates. This is most often the case. However, the main question is how closely even under normal circumstances companies stick to their original phasing of capital expenditures. Some preliminary probings have indicated that there is a shift from expenditures in the second year to the third year. Less is spent in the second year than planned and more in the third year. A detailed study is under way to examine this issue.

Forecasts using this model have been made for the past several years on corporate investment. It is however, only recently data are available on actual corporate investment. Here again there are problems since the Reserve Bank of India has confined itself only to supplying the data on sample companies rather than for the entire corporate sector. However, a

detailed analysis of our forecasts with the actuals is now being undertaken. The substantial increase in corporate investment for 1974 that was forecast by this model has been confirmed by the Economic Times series on corporate investment and the data on Medium and Large Public Limited Companies compiled by the Reserve Bank of India. Our model had indicated a fall in corporate investment in 1975. But the Economic Times series on gross fixed asset formation shows only a slight decline for 1975-76 and the data on Large Public Limited Companies compiled by Reserve Bank of India a slight increase. When more detailed data are available, a further examination will be called for.

Table 1 provides the data on the phasing of capital expenditures of projects sanctioned by the three leading term lending institutions - IDBI, ICICI, and IFCI.³ Read horizontally each row indicates the expenses to be incurred in the various years on the projects approved in a particular year. Read vertically each item indicates expenditures to be incurred in a year out of projects sanctioned in a previous year. The total of each vertical column indicates the expenditures to be incurred in a particular year out of projects sanctioned in all the years.

Picture for 1976

From table 1 it can be seen that capital expenditures in 1976 would be Rs. 637 crores compared to a total expenditure of Rs. 530 crores in 1975. Thus there has been a substantial pick up in private corporate investment in 1976 as compared to 1975. However, 1976 even in nominal

terms does not come up to the level of investment achieved in 1974.

Corporate investment in 1974 on project sanctioned by the term lending institutions was Rs. 681 crores. The possibility of the corporate investment in 1976 being higher than in 1975 was forecast by us earlier. While this is confirmed by our own data, this needs to be further confirmed by data on total corporate investment which may take another year or so to come out.

It may however be worthwhile to point out that 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 the estimates of projects sanctioned in the various years, there is a need to reduce all the figures to a common price level. We have deflated all the elements in the columns of 1974, 1975 and 1976 by a combined price index of electrical machinery, non-electrical machinery, and transport equipment. Thus it is seen that the total capital expenditures for 1974, 1975 and 1976 would be Rs. 493 crores, 245 crores, and 265 crores respectively. In fact if we deflate only by a price index of machinery other than electrical the figures in real terms would be even lower. Thus while investment in corporate sector in 1976 may be slightly better than in 1975 the picture is still far from encouraging.

Pattern of Capital Expenditures in 1976

Table 2 provides an industry-wise break up of the capital expenditures incurred in 1976. 'Transport' accounted for 28 per cent of the total capital expenditures. This is explained by the fact that in 1975, one

fifth of the new commitments went into this sector. 'Minerals and Metals represent 22 per cent of the capital expenditures in 1976. 'Chemicals and Pharmaceuticals' showed a decline compared to the previous year.

Table 3 presents an industry-wise analysis of the new projects approved in 1976. The total number of projects approved comes to 149. The small decline in number as compared to 1975 can be ignored as the data for 1976 is slightly incomplete. The total cost of projects sanctioned in 1976 come to Rs. 614 crores as compared with Rs. 785 crores in 1975. 'Metals and Metal Products' and 'Chemicals & Pharmaceuticals' claim 16% each of the total cost. New commitments in 'Automobiles and Cycles' showed a decline compared to the previous year. 'Pulp and Paper Products' have shown a big spurt. Unlike the previous year, bulk of the expenditures on new projects is incurred in the first three years. In the case of projects sanctioned in 1975, 20 projects out of a total of 154 took four years or more to complete. But in 1976, there are only 6 projects out of a total of 149 in this category.

Forecast for 1977

Based upon the projects sanctioned upto the end of 1976 the total capital expenditures to be incurred in 1977 comes to Rs. 512 crores. In addition we must account for the fact that the data for 1976 is slightly incomplete. To these must be added the expenditures to be made out of proposals to be sanctioned in 1977. The total expenditures in 1976 came to Rs. 637 crores. Thus there is a gap of Rs. 125 crores to be filled in which can easily come out of the projects to be sanctioned in 1977. Thus Corporate

investment in 1977 could definitely reach the level attained in 1976. It has been said that at the beginning of the year there were 168 projects pending with the leading term lending institutions for a total cost of Rs. 1000 crores. It is quite possible that investment in 1977 may reach the previous high of Rs. 680 crores reached in 1974. However, this will be only in nominal terms. In real terms, the 1974 peak will not be reached.

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NOTES

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2. In the collection of data we have confined ourselves to three leading term lending institutions. Apart from the fact that there are other term lending institutions which provide assistance to corporate sector, the bill rediscounting scheme of IDBI goes directly to finance fixed asset formation, however, there is no 'advance indicator' for this type of assistance.
3. For 1976 we have not been able to collect all data from all the term lending institutions. The data on projects sanctioned exclusively by IFCI remain to be collected. Since this is usually a small figure this should not affect the conclusions drawn.

PHASING OF CAPITAL EXPENDITURES ON PROJECTS SANCTIONED BY TERM LENDING INSTITUTIONS, 1966 to 1980

(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	269	238	134	52	26										
1963	1738	165	112	80	63	53	40	30							
1964	3498	1447	354	295	153	79	47	28	12	2					
1965	10147	7227	1897	754	449	205	184	135	21						
1966	5994	7393	6202	5930	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	260	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	87
1976										4232	19361	22420	12997	1652	70
Total	22131	21468	25574	33759	34048	31844	46294	53095	68148	52979	63740	51163	27969	8155	158

Table 2INDUSTRY-WISE CAPITAL EXPENDITURES FOR 1975, 1976 AND
EXPECTED EXPENDITURES FOR 1977

	(Rs. in lakhs)		
	1975	1976	1977
1. Chemicals and Pharmaceuticals	13016 (24.44)	9492 (14.89)	10086 (21.16)
2. Electrical	2910 (5.47)	5132 (8.05)	2879 (6.04)
3. Engineering	3562 (6.69)	4573 (7.17)	4905 (10.29)
4. Jute	116 (0.22)	92 (0.14)	-
5. Minerals and Metals	12716 (28.88)	14229 (22.32)	8684 (18.22)
6. Paper	1713 (3.22)	1645 (2.58)	4246 (8.91)
7. Textiles	2351 (4.42)	2393 (3.75)	1579 (3.31)
8. Transport	10116 (19.00)	17682 (27.74)	6946 (14.57)
9. Cement	1229 (2.31)	1351 (2.12)	2192 (4.60)
10. Miscellaneous	5520 (10.37)	7151 (11.22)	6152 (12.91)
Total	53249	63740	47668

Note: Figures in brackets are per centages of total.