Setting the investment wheels rolling again

Indian companies have the wherewithal to invest but sentiment needs a lift

The Indian economy has faced significant challenges of late, with a global slowdown and sluggish export demand for Indian products leading to a decline in investments.

Besides, the influx of cheap Chinese imports in sectors such as textiles has deterred domestic expansion, making it even more challenging for businesses to invest in new assets.

Instead, firms have prioritised debt repayment, resulting in a decline in capital expenditure. Investments in assets such as machinery, property and equipment, in particular, are crucial for long-term economic growth and strategic development of the country. Such investments are broadly known as gross fixed capital formation (GFCF), which refers to a net increase in an economy's fixed capital assets over a specific period.

GFCF is crucial because it directly boosts the country's gross domestic product (GDP), productivity and living standards. It is an indicator of business confidence, especially in the private sector, and can help identify areas where investment is lagging and guide policy interventions to address potential imbalances and stimulate economic growth.

A crucial component of GFCF is capital expenditure (capex), which helps businesses enhance productivity, expand operations and improve global competitiveness.

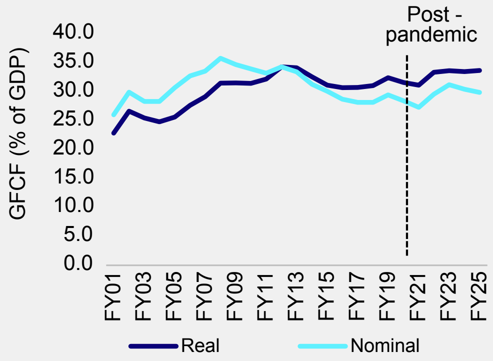
Major contributors to the country's capex

Public sector → Private sector → Households

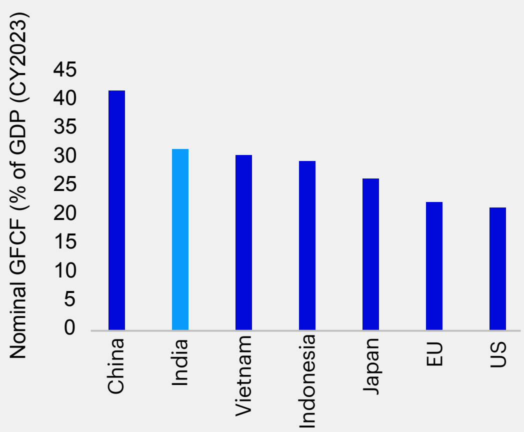
Capex trends

Government- and household-led capex has played a crucial role in investment recovery in India since the pandemic.

A revival after the pandemic



India's position vs. major economies

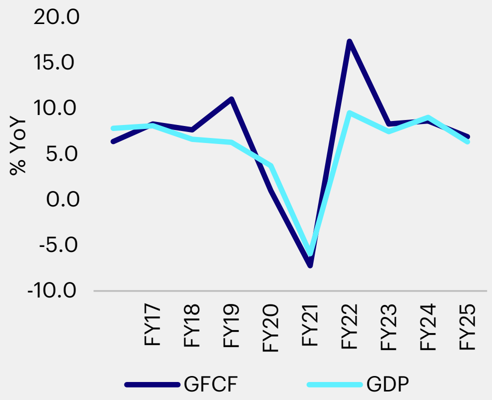


Note: GFCF- Gross fixed capital formation
Source: NSO, World Bank, CEIC, Crisil

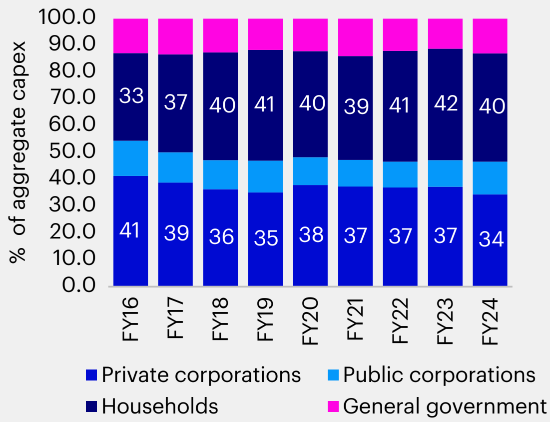
In real terms, GFCF grew 7.1% in fiscal 2025, outpacing the 6.5% GDP growth. GFCF's share in GDP rose to 33.7% in fiscal 2025, the highest after fiscal 2013. However, in nominal terms, GFCF grew 7.9% in fiscal 2025, lagging the 9.8% GDP growth, with its share of GDP declining to 29.9% from 30.4% in fiscal 2024.

Between fiscals 2022 and 2024, public sector capex grew 19.7% on average, followed by households (13.4%) and central and state governments (9.3%). In contrast, private sector capex growth stood at 8.7%.

Fixed investments outpace GDP post pandemic



Capex as % of GFCF



Source: Crisil

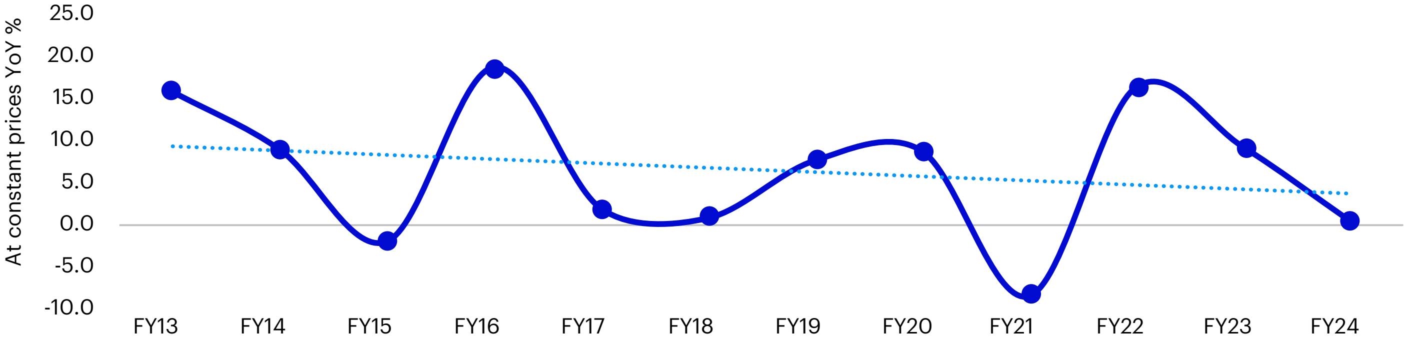
Private capex share of GFCF peaked at 41.3% in fiscal 2016 but fell to 34.4% in 2024, the lowest after 2012.

In fiscal 2025, GFCF growth slowed to 7.1% in real terms from 8.8% in the previous year and 7.9% in nominal terms from 9.2%.

Private capex trend

As the government reduces spending to facilitate fiscal consolidation, the onus to drive and sustain the investment momentum shifts to the private sector.

Private capex growth was mixed in the last decade (see chart below).



Source: NSO, CEIC, Crisil

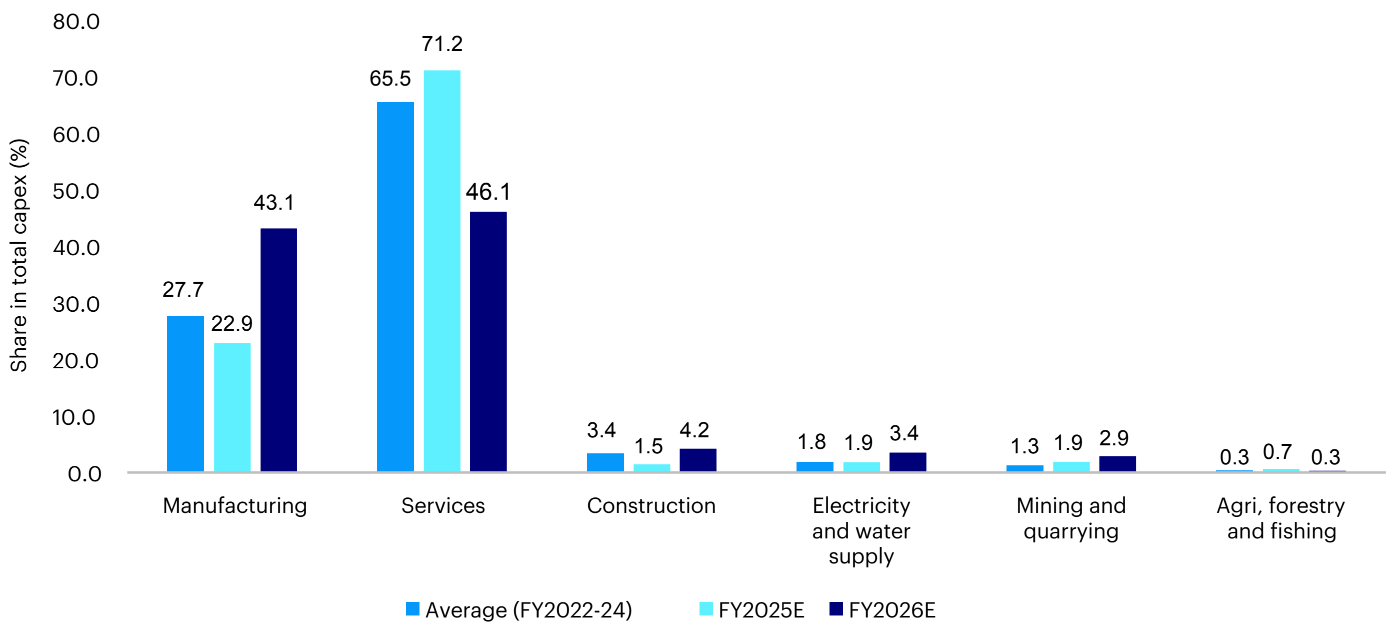
NSO survey on capex

The National Statistics Office (NSO) launched a private capex survey in fiscal 2025 to gather data for the last fiscal as well as investment plans for the current one as official data for private capex is available only till fiscal 2024. The findings on private sector capex plans were released in April 2025. Currently, in an experimental phase, the survey will continue to be refined, and the results would be published at regular intervals.

Based on the 2,172 companies that have disclosed their plans, private capex is estimated to have risen 55.5% on-year to Rs 6.56 trillion in fiscal 2025 on a low base. Of this, information and communication activities are expected to account for 23.4%, followed by manufacturing (22.9%) and transportation and storage (20.7%).

For fiscal 2026, a capex of Rs 4.89 trillion has been planned, according to the survey.

Interestingly, **for fiscal 2026, the share of the manufacturing sector in the total capex is expected to rise substantially compared with 2025**, while that of the services sector is expected to fall (see the chart below). With the tax sops announced in the budget for fiscal 2026 and interest rate cuts, private sector and household capex is expected to rise in coming years.

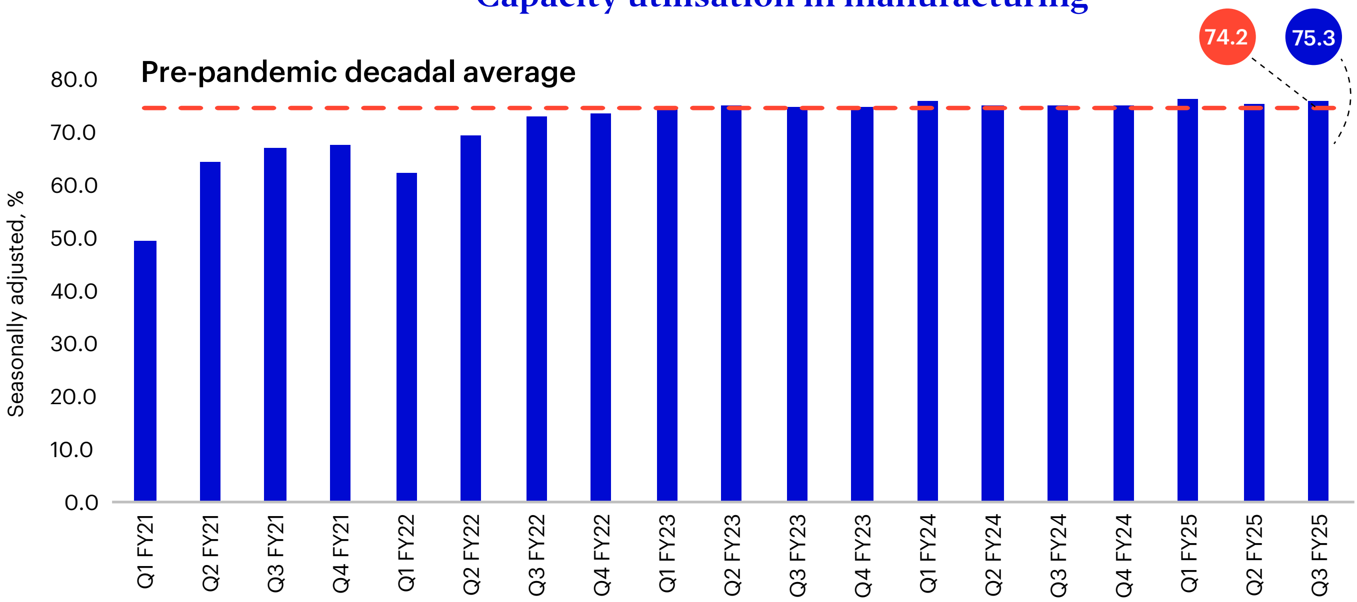


E: Estimates;Source: Crisil

Capacity utilisation slightly above the pre pandemic decadal average of 74.2%

Private firms tend to increase capex only when there is both rising capacity utilisation and strong demand for goods. Capacity utilisation in the manufacturing sector was around 75.3% in Q3 FY25 up from previous quarter, which is encouraging private companies to invest more in fixed assets. Higher capacity utilisation signals firms are approaching full use of existing productive capacity, encouraging investments in new capacity to avoid bottlenecks. Recent data shows rising capacity utilisation has encouraged private sector capex, especially in manufacturing and technology sectors but overall private sector investment remains cautious due to global uncertainties and demand concerns.

Capacity utilisation in manufacturing



Source: RBI, Crisil

Way forward

Revival of private sector investment is crucial to sustain India's growth in the medium term. Survey results and other proxy indicators pertaining to capex trends show improving sentiment regarding the current situation but weakening expectations of the future.

This can also be gauged by the improvement of Business Assessment Index in the latest Industrial Outlook Survey by the Reserve Bank of India and Business Confidence Index by National Council on Applied Economic Research.

Further, gross foreign direct investment inflows rose to $81 billion in fiscal 2025 from $71.2 billion in the previous year. Credit growth for the manufacturing industry slowed to 7.8% in FY25 compared to 8.5% in FY24.

The RBI estimates that the manufacturing sector's capacity utilisation was 75.3% in the third quarter of fiscal 2025, slightly above the pre-pandemic decadal average of 74.2%. This is likely to push corporates to make fresh investments.

The ability of companies to invest remains high as their balance sheets are healthy and banks are in a good position to lend. The macroeconomic environment, however, is trickier to predict.