

## Public sector capex back to the pre-Covid high in FY24P...

...and is likely to sustain in FY25BE

- It is widely known and acknowledged that the total investment (i.e., capex) of the Central government has increased rapidly in the past three years. Excluding loans & advances (L&As) and equity infusion into public sector enterprises (PSEs), the Central government's capex posted a staggering 32% CAGR in the last three years and is estimated to be INR7.3t in FY24P, up from INR3.2t in FY21.
- Although this is highly appreciated, we have highlighted numerous times (see [here](#) or [here](#)) that this is largely a reallocation of capex from the Central PSEs (or CPSEs) to the fiscal accounts. On an aggregate basis, the combined capex of CPSEs (excluding Food Corporation of India, FCI) and the Central government is likely to be 3.5% of GDP in FY24P, compared to the average of 3.7% of GDP in the 2010s decade. This is because, although Center's capex has risen to 2.5% of GDP in FY24P from 1.5% in the 2010s decade, CPSEs' capex has declined to 1% (based on revised estimates, REs) from 2.2% of GDP earlier. This re-allocation, however, could have had a positive impact on investment efficiency.
- Further, it is largely believed that the last five years, i.e., FY19-FY24P, have seen superior growth in the government's capex. Although this is certainly true for the Center's capex, it is not true for the combined capex of the Central government and CPSEs<sup>1</sup>. A comparison with previous five-year periods (starting FY00) confirms that the combined capex growth in recent five years (FY19-24) was only 7.5% per annum vs. a CAGR of 11-17% in the previous episodes. CPSEs capex, thus, was only 40% of the center's capex in FY24, compared to almost 1.5x a decade ago.
- This is not only true for the combined capex of the government, but also for the 'roads & national highways' sector. As against the CAGR of 18.8% and 41.8%, respectively, during FY09-14 and FY14-19, capex in the roads sector increased at an average of 15% during the last five years. Of course, a higher base matters, as the growth during FY14-19 was remarkable in this sector. For railways also, the average growth during FY14-FY19, at 21.2%, was higher than during the last five years (14.5%) and the CAGR of 12.4% between FY09 and FY14. In contrast, defense spending grew at the slowest pace during FY14-FY19 (at only 3.8%), compared to 10.5% in the last five years and 14.1% between FY09 and FY14.
- In contrast to the central government, states' aggregate capex (excluding loans & advances) is estimated to have increased at a CAGR of 11.5% during the last five years, weaker than 14.8% in the previous five years but much better than 9.0% during FY09-FY14 period. This decent CAGR in the recent period was largely driven by almost two-decade high growth of 27% YoY in FY24P<sup>2</sup>. Accordingly, states' capex increased from a very stable rate of 2.0-2.3% of GDP during the past two decades to its all-time high level of 2.6% of GDP in FY24P.
- Thanks to the states, the total public sector (Centre + CPSEs + states) capex increased 17.5% YoY in FY24P, marking the second-highest growth in eight years. However, notwithstanding such strong growth in FY24P, the total capex of the public sector clocked a 9.1% CAGR in the last five years, weaker than 12.3% and 10.1% CAGR during FY14-FY19 and FY09-FY14, respectively. Notably, though, the total capex of the public sector increased to 6.1% of GDP last year, the same as in the pre-Covid years and compared to an eight-year low of 5.7% of GDP in FY23.
- Going by the Union and states' 2024-25 budgets<sup>3</sup>, the total capex of the public sector is budgeted to grow 9.6% YoY in FY25 vs. FY24RE and 15.3% vs. FY24P. Assuming that states – on an aggregate – spend 90% of their budget estimates (BEs) in FY25 (compared to an estimated 88% in FY24P and an average of 77-78% in the last five or ten years) and the Center/CPSEs meet their BEs, the total public sector capex would grow 10.3% YoY next year, standing at 6.1% of GDP.
- Since we expect India's nominal investments (GFCF + change in inventories) to grow 12% YoY in FY25, better than +9.8% YoY in FY24, it also means that we expect the private sector capex (household + corporate) to grow 12.3% YoY in FY25 vs. +8.1% YoY in FY24. Within that, while household capex growth could slow to 11% YoY (from +12% YoY in FY24P), private corporate capex will have to increase 13.5% YoY this year, compared to just 4.3% growth in FY24.

<sup>1</sup>Actual data on CPSEs capex is available only from FY10. Only budget and revised estimates (BEs and REs) were available prior to that.

<sup>2</sup>FY24P estimates are based on provisional/supplementary monthly data available up to March 2024 for 20 large states.

<sup>3</sup>Based on an analysis of 20 large states, of which eight states have presented Vote-on-account (VoA) budgets, just like the Central government. Please refer to our recently released report on [State Budgets 2024-25](#)

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

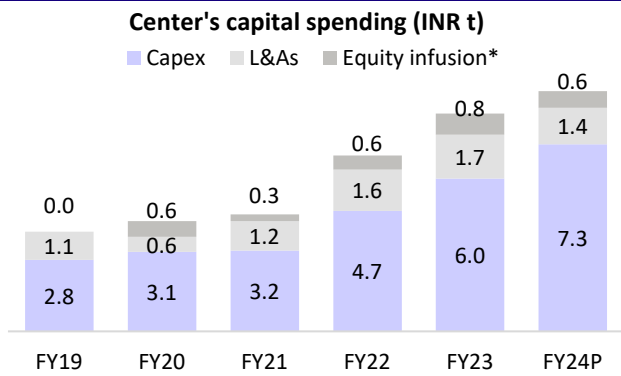
Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Center’s capex has surged remarkably in the past three years...:**

Center’s capex has clocked a CAGR of 32% in the last three years, surging to 2.5% of GDP in FY24P from an average of 1.5% of GDP in the pre-pandemic decade

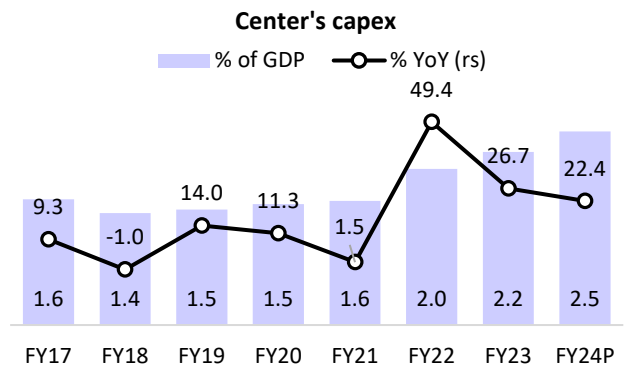
Infrastructure capex is a very important part of any economy, and globally, the government assumes the primary responsibility of such investments. The Central government’s capex in India has increased massively in the past three years, rising from INR3.2t in FY21 (excluding L&As and equity infusions into PSUs) to as much as INR7.3t in FY24P (*Exhibit 1*). It means that the Center’s capex has increased at a CAGR of 32% in the last three years, surging to 2.5% of GDP in FY24P from an average of 1.5% of GDP in the pre-pandemic decade (*Exhibit 2*).

**Exhibit 1: Center’s capex has jumped remarkably in the past three years...**



\*AIAHL (INR624b) in FY22 and BSNL (INR264b/550b) in FY23/FY24P

**Exhibit 2: ...taking it to 2.5% of GDP in FY24, from 1.5% of GDP in the 2010s decade**



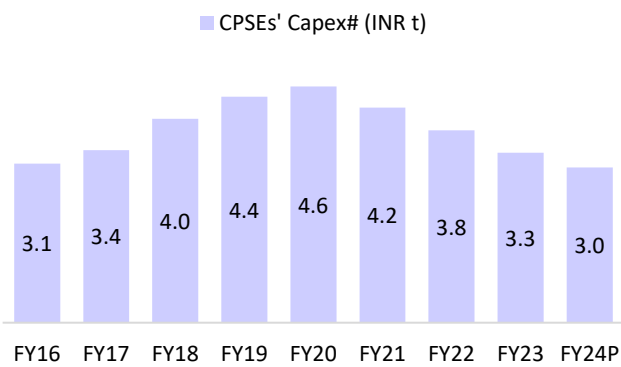
Source: Union Budget documents, CSO, MOFSL

**...a large part of which has been attributed to a reallocation from CPSEs:**

CPSEs’ capex contracted at a CAGR of 10% per annum during the past four years, and was down to just 1% of GDP from 2.3% of GDP in the pre-pandemic decade

Although this is highly appreciated, we have highlighted many a time (see [here](#) or [here](#)) that this is largely a reallocation of capex from the CPSEs to the fiscal accounts. A CPSE is defined as any company in which not less than 51% of paid-up share capital is held by the Central government or by one or more State governments or partly by Central government and State government(s) and it includes subsidiary of a Government company. As of FY23, there were 254 operational CPSEs in the country, of which 63 CPSEs were listed. As per the Budget documents, CPSEs’ capex (excluding FCI) peaked at INR4.6t in FY20, after which it declined for four successive years to INR3.0t as per FY24RE (*Exhibit 3*). It, thus, contracted at a CAGR of 10% per annum during the past four years, and was down to just 1% of GDP from 2.3% of GDP in the pre-pandemic decade (*Exhibit 4*).

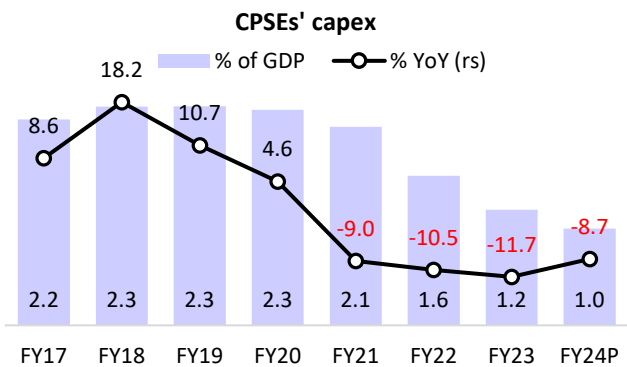
**Exhibit 3: CPSEs’ capex has declined in recent years...**



FY24P = FY24RE

#Excluding FCI

**Exhibit 4: ...to only 1% of GDP in FY24P**



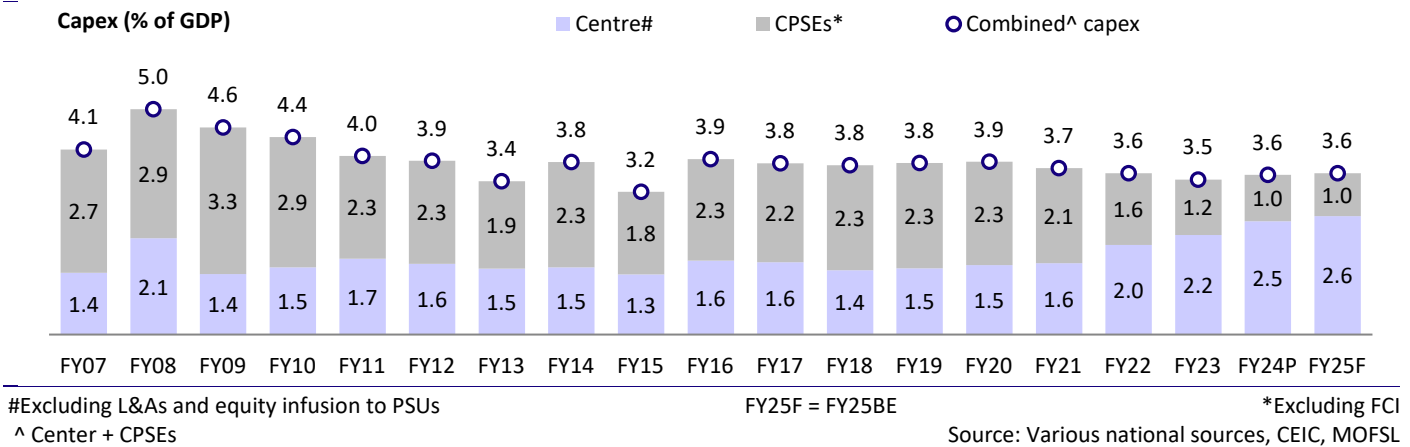
Source: Union Budget documents, CSO, MOFSL

This is visible from the fact that CPSEs’ borrowings under the Ministry of Road Transport & Highways totally disappeared from FY23 onwards, compared to INR650b each in FY21 and FY22, while it was only INR200b in FY24RE for CPSEs under the Ministry of Railways, from about INR800b each in FY19 and FY20. Not surprisingly, these are exactly the areas where the Central government’s capex has witnessed a remarkable growth in the past few years.

Combined capex of the Center and CPSEs is estimated at 3.5% of GDP in FY24P compared to the average of 3.7% of GDP in the 2010s decade

**Combined govt capex in FY24 slightly lower than that in the 2010s decade:** On an aggregate basis, therefore, the combined capex of the Central government and CPSEs is estimated at 3.5% of GDP in FY24P compared to the average of 3.7% of GDP in the 2010s decade (FY11-FY20; *Exhibit 5*). The combined capex is budgeted to grow 13% YoY in FY25, rising slightly to 3.6% of GDP this year. This re-allocation, however, could have had a positive impact on investment efficiency.

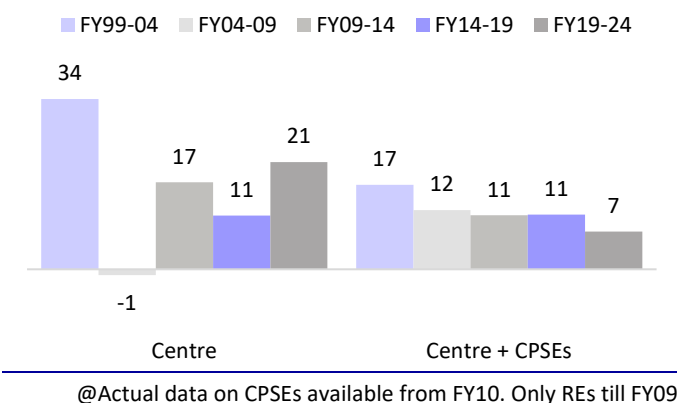
**Exhibit 5: Combined government capex was 3.5% of GDP in FY24P vs. 3.7% of GDP in the 2010s decade**



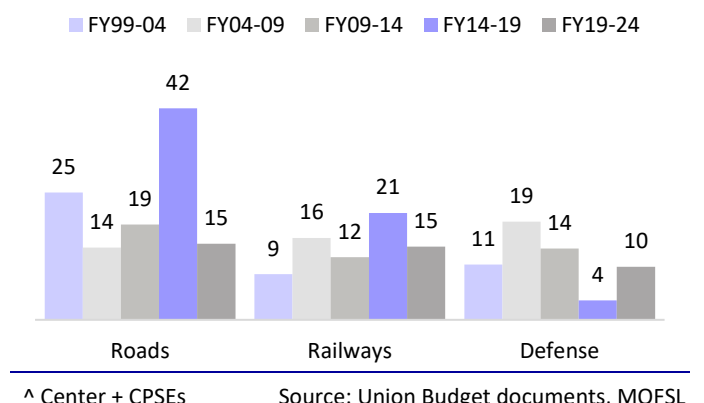
Combined capex growth in the recent five years (FY19-24P) was only 7.5% per annum, compared to a CAGR of 11-17% during the previous five-year periods

Further, it is largely believed that the last five years, i.e. FY19-FY24P, have seen the best growth in government capex. Although this is certainly true for the Central government, it is not true for the combined capex of the Center and CPSEs. A comparison with the previous five-year periods confirms that the combined capex growth in the recent five-year period (FY19-24P) was only 7.5% per annum vs. a CAGR of 11-17% during the previous episodes (*Exhibit 6*). In contrast, Center’s capex growth (at 21.2%) was much better than the recent five-year periods.

**Exhibit 6: Government’s combined capex grew slowly in FY19-FY24 vs. the previous decade...**



**Exhibit 7: ...and same is the case in the ‘roads & national highways’ sector**



As against the CAGR of 18.8% and 41.8% during FY09-14 and FY14-19, respectively, capex in the roads sector increased at an average of 15.0% during the last five years

**Key sectoral details about the combined government capex:**

Not only has the combined capex (Center + CPSEs) of the GoI grown at a slower pace in the past five years vs. the previous episodes, but it is also true for the ‘roads & national highways’ sector. As against the CAGR of 18.8% and 41.8% during FY09-14 and FY14-19, respectively, the capex in the roads sector increased at an average of 15.0% during the last five years. Of course, higher base matters, but this sector has seen strong growth in almost all episodes, with remarkable growth during FY14-FY19 (*Exhibit 7*). For railways also, the average growth during FY14-FY19 at 21.2% was higher than during the last five years (14.5%) and the CAGR of 9-16% during the earlier five-year periods.

In stark contrast, defense spending grew at the slowest pace during FY14-FY19 (at a CAGR of only 3.8%) compared to 10.5% CAGR in the last five years and 14.1% CAGR between FY09 and FY14 and 11-19% CAGR in the previous five-year episodes.

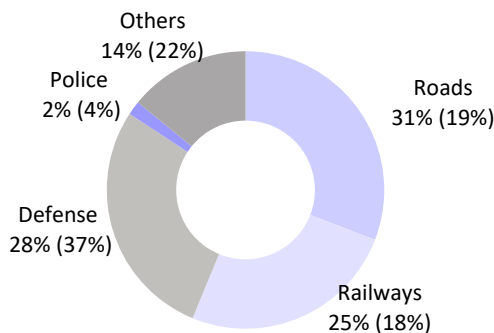
While the Center’s capex in the roads and railways sectors has increased impressively in the past few years, it has declined in those areas for CPSEs

A look at the growth in these three key capex areas for the Central government (*Exhibit 8*) and CPSEs (*Exhibit 9*) reveals that while the Center’s capex in the roads and railways sectors has increased impressively in the past few years, it has declined in those areas for CPSEs. CPSEs such as the National Highway Authority of India (NHAI) invested INR650-750b from their own books between FY20 and FY22, which was taken by the Central government on its own book from FY23, implying that now no capex is done by CPSEs in the roads sector on their books. Similarly, while CPSEs’ capex in the railways sector declined by almost a quarter during the last five years, the Center’s capex increased 35% during the same period.

Although CPSEs capex in the defense sector grew 36% between FY19 and FY24RE, its share in CPSEs total capex is only 2%, which makes it trivial (up to INR29b in FY24RE from INR6b in FY19).

**Exhibit 8: Center’s capex has increased very strongly in the ‘roads’ and ‘railways’ sectors...**

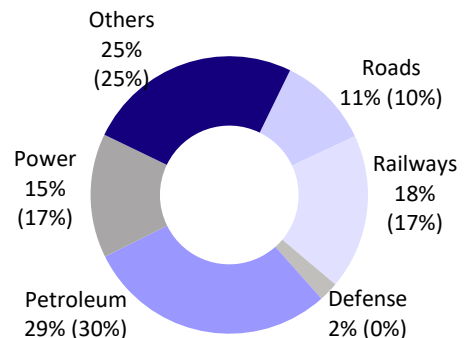
Key capex areas for the center (% of total)



% share during FY20-FY24P (% share in FY14-19)

**Exhibit 9: ...but it has declined in those areas for CPSEs during the last five years**

Key capex areas for CPSEs (% of total, % CAGR)



FY24RE data

Source: Union Budget documents, MOFSL

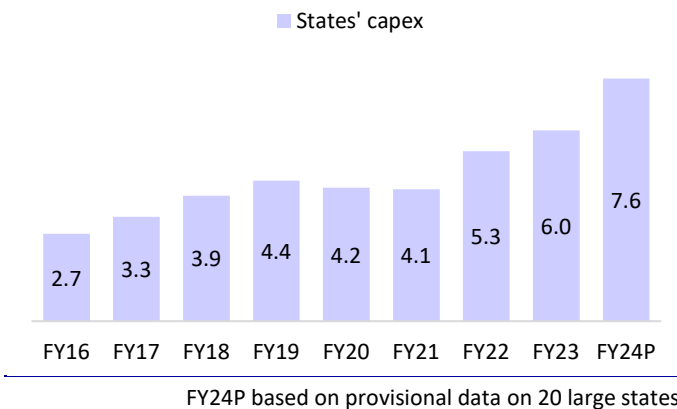
Therefore, one must include CPSEs’ capex in the Center’s budgeted data to look at the total capex done by the Government of India. As shown above, the combined capex growth in the roads sector was weaker in the last five years compared to the previous decade, while it was decent in the railways and defense sectors. Overall, the growth in the combined capex during FY19-24P was weaker than in the previous episodes.

**States' capex spikes in FY24P...**

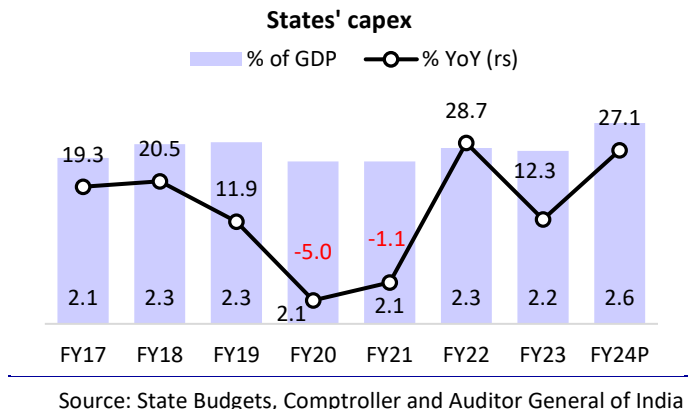
As states' capex likely grew 27% YoY in FY24P, it increased to an all-time high of 2.6% of GDP last year

In contrast to the combined capex of the GoI, states' aggregate capex (excluding L&As) has spiked in FY24P. Based on provisional monthly data available up to Mar'24 of 20 large states (including supplementary data from 16 states), our estimates suggest that states' capex increased to INR7.6t in FY24P, up 27.1% YoY from INR6.0t in FY23 (based on actual data from these 20 states). It means that after contracting for two successive years in FY20 and FY21, states' capex has increased at a CAGR of 22% in the last three years (*Exhibit 10*). However, with states' capex growing strongly in FY24P, it increased to an all-time high of 2.6% of GDP last year, from a stable 2.0-2.3% of GDP in the previous 15 years (*Exhibit 11*).

**Exhibit 10: States' capex likely surged to INR7.6t in FY24P...**



**Exhibit 11: ...reaching an all-time high of 2.6% of GDP**

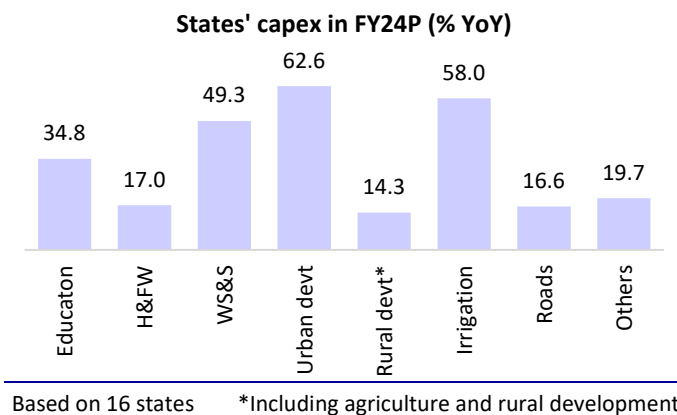


**...led by broad-based surge in almost all sectors:**

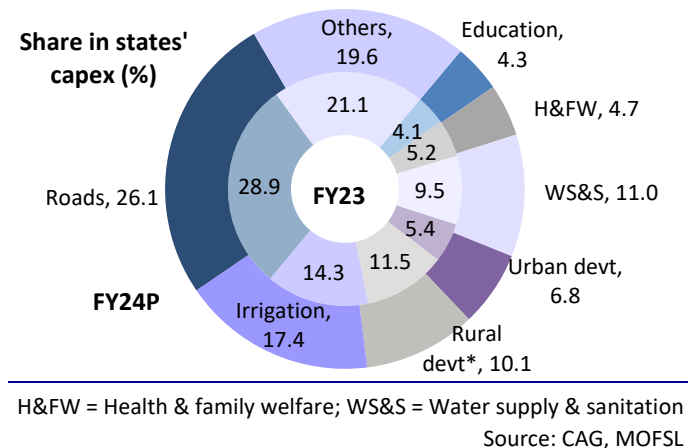
The growth in states' capex in FY24P has been extremely broad-based

Based on civil accounts available for 16 states (of the 20 states included in our [State Budgets 2024-25 study](#)) up to Mar'24, we find that capex growth in FY24P has been extremely broad-based (*Exhibit 12*). The capex in the 'water supply & sanitation', 'irrigation' and 'education' sectors is estimated to have increased 50% or more in FY24P, due to which their share in states' total capex increased last year (*Exhibit 13*). The 'Roads' sector saw a growth of 17% YoY last year, due to which its share in states' total capex reduced to 26% in FY24P, from 29% in FY23.

**Exhibit 12: Urban development, irrigation, and WS&S grew 50% YoY or more in FY24P**



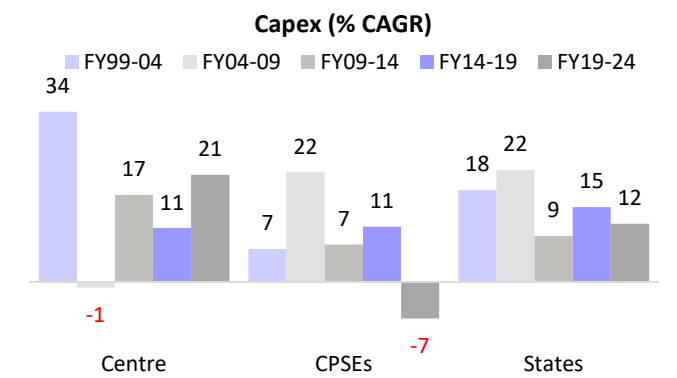
**Exhibit 13: Roads, irrigation, and WS&S together account for more than half of the states' capex**



States' capex growth of 12.5% in the recent five years was slower than in the prior five-year period

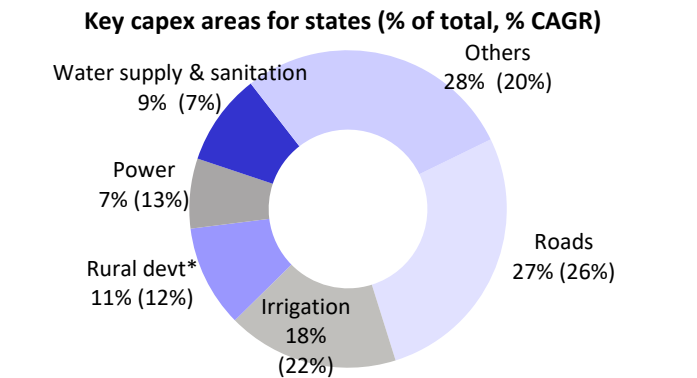
However, notwithstanding such strong growth in the past three years, states' capex growth in the recent five years was slower than in the prior five-year period. It is estimated to have recorded at a CAGR of 11.5% during FY19-FY24P, weaker than 14.8% CAGR in the previous five years (FY14-FY19) but better than 9.1% CAGR during the FY09-FY14 period (*Exhibit 14*). States' capex in the past decade (FY14-FY24P) has increased at an average of 13.2% per annum, lower than 15.5% average growth during the previous decade (FY04-14). States' capex, however, has grown faster than the combined capex of the Central govt. and CPSEs in the past decade.

**Exhibit 14: States' capex has grown 11.5% per annum during FY19-FY24P weaker than during FY14-FY19**



@CPSEs actual data available from FY10 (REs till FY09) FY24P for Center and states; FY24RE for CPSEs

**Exhibit 15: States' capex in 'education' is likely to have almost doubled in FY24P**



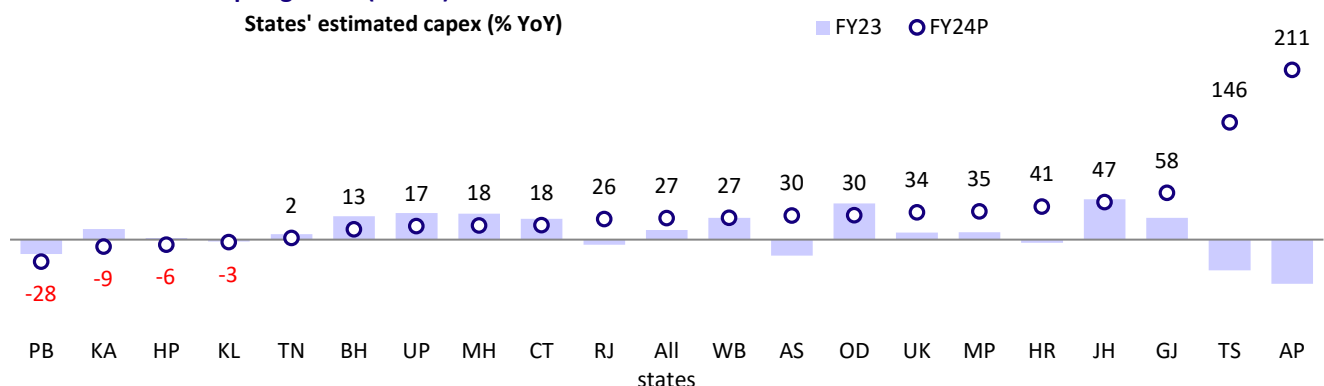
% share of state's capex during FY20-FY24P (% share in FY14-19) \* Including agriculture Source: State Budgets, CGA, CAG, MOFSL

Details suggest that 'water supply & sanitation', which is among the largest sectors, has witnessed the highest growth within states' capex. It accounted for 9% of states' total capex during the last five years (and ~11% in FY24P) and has increased at an average of ~21% during the period (*Exhibit 15*). In contrast, capex on roads and rural development (including agricultural activities) grew 12% each and the 'irrigation & power' sector saw a slower growth of 6-7% only during FY19-24P.

While AP's capex has more than tripled last year, it has more than doubled in TS and increased faster than the average in eight more states in FY24P

A look at individual states confirms that while Andhra Pradesh's (AP) capex more than tripled last year, it more than doubled in Telangana (TS) and increased faster than the average in eight more states in FY24P (*Exhibit 16*). In contrast, capex declined in three states last year, with a second consecutive contraction in Punjab (PB) and Kerala (KL).

**Exhibit 16: Estimated capex growth (% YoY) in FY24P in individual states**



^Based on supplementary data of 16 states (except AP, MH, OD and TS)

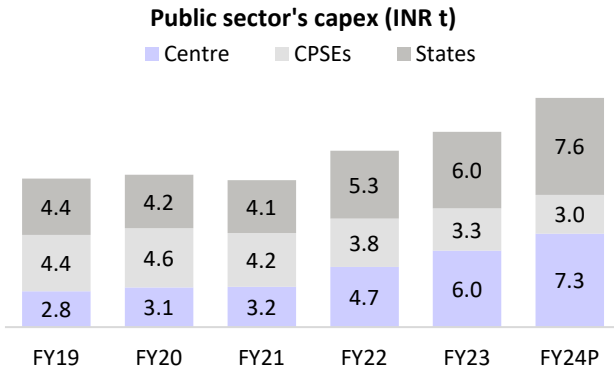
Source: CAG, State Budgets, CEIC, MOFSL

Total capex of the public sector increased 17.5% YoY in FY24P

**Public sector capex back to the pre-Covid level of 6.1% of GDP in FY24P...**

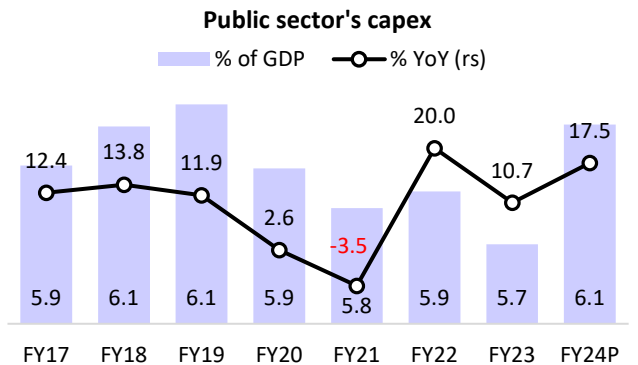
After remaining stagnant between FY19 and FY21, public sector capex (Centre + CPSEs + states) increased by a strong 16% during the last three years to INR18.0t in FY24P, from INR11.5t in FY21 (and INR10.4t in FY18). It means that the total capex of the public sector increased 17.5% YoY in FY24P, marking the second-highest growth in eight years (*Exhibits 17 and 18*).

**Exhibit 17: Public sector capex stood at INR18.4t in FY24P...**



FY24P for Center and states; FY24RE for CPSEs

**Exhibit 18: ...as it clocked ~17% CAGR in the last three years**



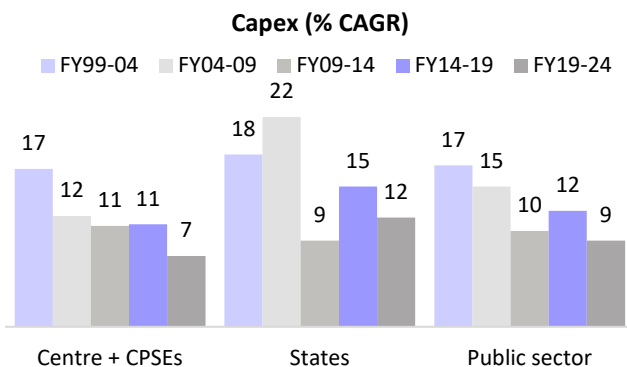
Source: Union/State Budgets, CAG, CGA, MOFSL

Total public sector capex posted a CAGR of only 9.6% in the last five years, weaker than 12.3% and 10.7% during the FY14-FY19 and FY10-FY14 periods, respectively

However, notwithstanding such strong growth in FY24P, the total capex of the public sector posted a CAGR of only 9.1% in the last five years, weaker than 12.3% and 10.1% during the FY14-FY19 and FY09-FY14 periods, respectively (*Exhibit 19*). This is despite the fact that the Center's capex has grown at the fastest pace, which is actually a reallocation from CPSEs. Overall, the public sector's capex growth was the highest during FY99-FY04, when it was led by the Center and states.

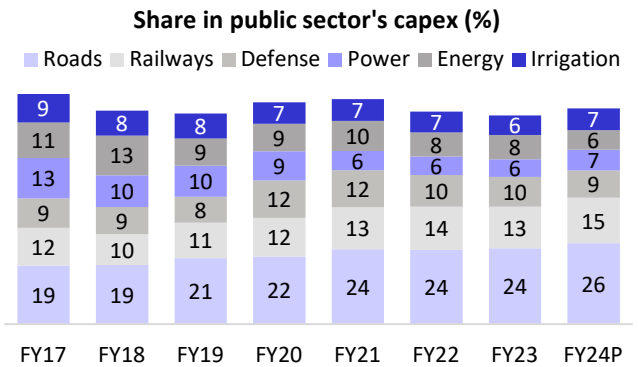
The total capex of the public sector in the roads sector grew 13.7% during the past five years, slower than in the previous episodes. Similarly, railways' capex growth (at 14.5%) was slower than in FY14-FY19, while it was higher (at 10.5%) in the defense sector. Therefore, the combined share of the three key areas increased to ~50% of the public sector capex in FY24P, compared to one-third a decade ago (*Exhibit 20*).

**Exhibit 19: Public sector capex grew slowly in the past five years...**



@CPSEs actual data available from FY10 (REs till FY09)  
FY24P for Center and states; FY24RE for CPSEs

**Exhibit 20: ...and the three key areas – roads, railways and defense – now account for half of public sector capex**

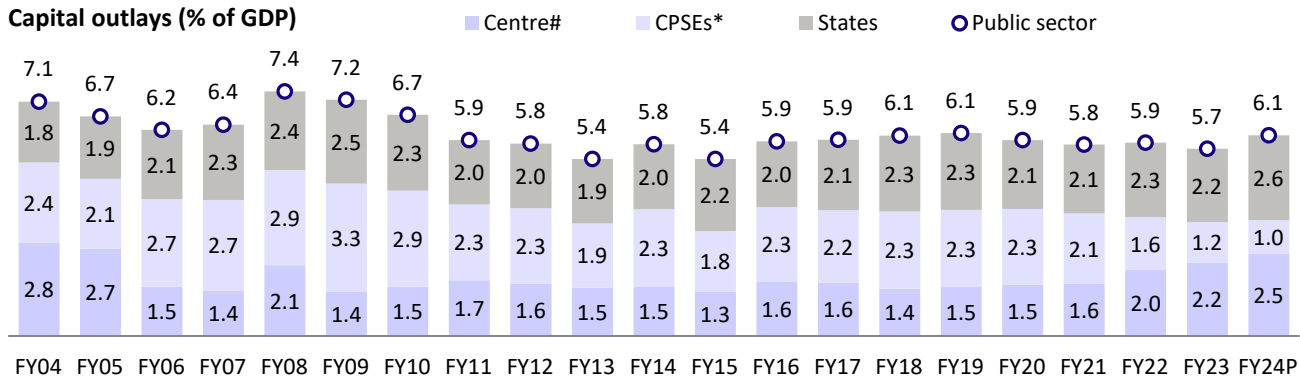


Source: Union/State Budgets, CAG, CGA, MOFSL

Public sector capex recovered to the pre-pandemic level of 6.1% of GDP last year, compared to an eight-year low of 5.7% of GDP in FY23

Thanks to such high growth in states' capex, the public sector capex increased to the pre-pandemic level of 6.1% of GDP last year, compared to an eight-year low of 5.7% of GDP in FY23, as highlighted **earlier** (Exhibit 21). The growth was largely led by all-time high states' capex of 2.6% of GDP in FY24P, as the combined capex of the Central government and CPSEs was 3.5% of GDP. Notably, CPSEs capex was only 40% of the center's capex in FY24, compared to almost 1.5x a decade ago.

**Exhibit 21: Thanks to the states' capex, the public sector's capex was back at pre-pandemic level of 6.1% of GDP in FY24P**



#Excluding L&As and equity infusion to PSUs  
^All states estimates based on 20 large states

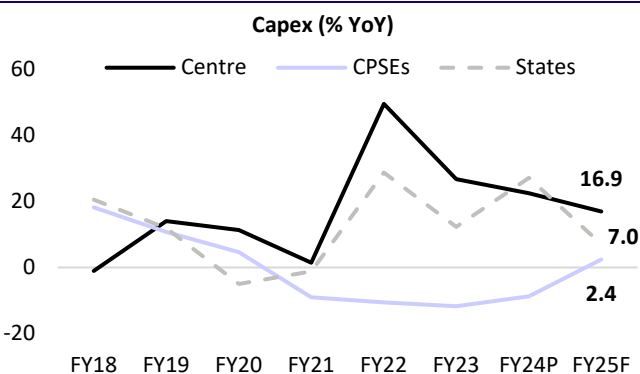
\*Excluding FCI  
FY24P for Center and states; FY24RE for CPSEs  
Source: Various national sources, CEIC, MOFSL

Assuming 90% achievement by states, total capex of the public sector would grow 10.3% YoY in FY25, equaling 6.1% of GDP

**...and likely to grow only ~10% YoY in FY25F:**

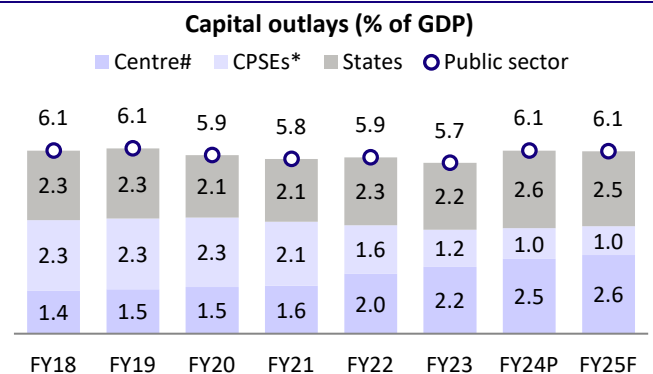
Going by the Union and states' 2024-25 budgets, the total capex of the public sector is budgeted to grow 9.6% YoY in FY25 vs. FY24RE and 15.3% vs. FY24P. Assuming that states, on an aggregate basis, spend 90% of budget estimates (BEs) in FY25 (vs. an estimated 88% in FY24P and an average of 77-78% in the last five or ten years) and the Center/CPSEs meet its BEs, the total capex of the public sector would grow 10.3% YoY next year, standing at 6.1% of GDP (Exhibit 23).

**Exhibit 22: Public sector's capex could grow 10% this year...**



Assuming FY25BEs for Center's/CPSEs and 90% of BEs for states

**Exhibit 23: ...keeping it unchanged at 6.1% of GDP in FY25**



#Excluding L&As and equity infusion to PSUs

\*Excluding FCI

Source: Union/State Budget documents, CSO, MOFSL

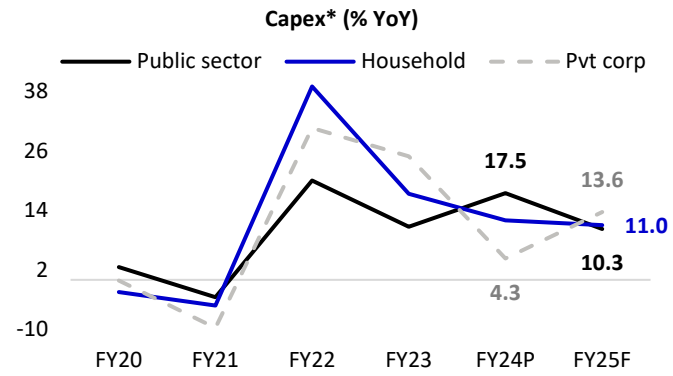
Our estimates suggest that private corporate capex will have to grow ~12% YoY in FY25

According to the provisional data, India's nominal investments (GFCF + change in inventories) increased 9.8% YoY in FY24, keeping the investment-to-GDP ratio unchanged at 31.8%, the highest in nine years. Assuming 12% growth in nominal investments this year, the ratio will increase to 32.2% of GDP. With 10.3% growth in the public sector capex, it implies that the private sector capex (household + corporate) must grow 12.3% YoY in FY25 vs. 8.1% growth in FY24. Within that, while



household capex growth could slow to ~11% (from an estimated 12% YoY growth in FY24), private corporate capex will have to increase 13.5% YoY this year, much faster than 4.3% growth last year (*Exhibit 24*).

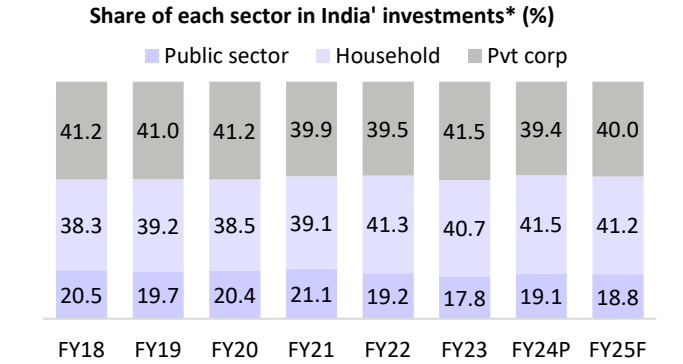
**Exhibit 24: Private corporate capex must grow 13.5% YoY in FY25, to help investment grow faster this year**



\*GFCF + change in inventories

Assumes 11-12% growth in total capex in FY25 vs. 9.8% in FY24

**Exhibit 25: Share of public sector and private corporate in FY25 could remain below the pre-Covid years**



Source: Union/State Budget documents, CAG, CGA, RBI, CSO, MOFSL

If so, then the share of the public sector (Center + states + CPSEs) will fall to 18.8% of India's investments in FY25F, lower than in the past many years (*Exhibit 25*). Further, the share of the private corporate sector will improve but still be lower than in the pre-pandemic years, with a continued high share of the household sector (primarily the residential property market).

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<b>Investment Rating</b>	<b>Expected return (over 12-month)</b>
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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