

Press Release

## India's capex engine is revving up, says Axis Capital report

**Mumbai, 3<sup>rd</sup> October, 2024:** *Axis Capital expects house construction, power and new investment areas to fuel a rebound in the investment ratio to 34% by FY30 (+3.6pp above FY24). In a new report flagging the beginning of a new capex cycle, the team, led by strategist Neelkanth Mishra, stresses the importance of real estate in India's economic cycles, as it drove 5pp of the 7pp decline in investment-to-GDP ratio over 2012-21.*

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### Report Highlights

#### 2012-21 investment slowdown was driven by real estate and power generation

- Real estate and power generation were the main drivers of the slowdown in investment activity between 2012 and 2021.
- Of the 7pp drop in investment-to-GDP, 5pp came from household spend on real estate and 3pp+ from capex on machinery for utilities and manufacturing, offset by higher capex on dwellings and IP/software.
- The decline in manufacturing capex as % of GDP came mainly from inputs into real estate: metals, construction materials and machinery.
- Urban real estate, which accounts for two-thirds of the value of construction, is prone to inventory cycles; rural residential real estate is not as cyclical.
- Excessive power capacity addition in between 2012-2016 triggered the subsequent drop in capex.

#### Bottom-up sectoral trends support a pick-up in capital formation

- Real estate has a clutch of structural demand drivers: growing population, decreasing household sizes, urbanization, growing need for more built-up area per capita and improving construction quality.
- The authors expect to see strong demand for construction materials, and thus capex in steel, cement and machinery. This will be led by cyclicality – low inventory following a decline in construction over 2012-21 lays the ground for strong growth in dwelling construction (commercial real estate as well).
- The report forecasts strong capex growth in power generation (Rs 19 tn over FY24-30E, including Rs 10 tn in renewables, ex. hydro), and in transmission and distribution capacity.
- The authors expect investment areas like green hydrogen, defense, solar modules, robotics, data centers, and energy storage to add 60-80 bps to India's investment ratio.

#### Challenges to further growth acceleration can limit upside to capex

- As firms invest based on growth expectations, the overall pace of growth affects the investment-to-GDP ratio as well.

- The authors do not expect trend growth to rise beyond 7-7.5% - sufficient to push the investment ratio to 34%, 3.6pp above FY24, driven by 1.8 pp improvement each for households and corporates.
- The near-term slowdown is transient - driven by [unintended fiscal and monetary tightening](#).

[Click here for more](#). 'India's capex engine has restarted' – Neelkanth Mishra, Sumit Kishore, Abhay Khaitan, Vishal Rangarajan, Rohan Gheewala; September 17, 2024, Axis Capital Ltd.

**About Axis Capital:**

Axis Capital is India's leading investment bank with leadership position across investment banking and institutional equities. Axis Capital's Investment Banking business has been honed for over 40 years delivering strategic advisory and solutions for Corporates and Investors. It has leadership positions across ECM, M&A, Private Equity Advisory and InvIT/REITs. Axis Capital is also a leading institutional broker in India with a full suite of offerings – from Research to Corporate Access, Cash, Derivatives and Electronic Trading. It's a preferred partner for leading institutional investors in India and across the globe.

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