

Capacity utilisation up in select sectors; may lead to investment revival

A gauge of capacity utilisation is also provided by the RBI data on working capital loans

Ishan Bakshi & Abhishek Waghmare | New Delhi March 22, 2018 Last Updated at 07:00 IST



There are early signs of an uptick in capacity utilisation in select sectors, which could be a precursor to an investment revival.

Utilisation rates are on the rise in cement, automobile ancillaries, engineering, casting and sheet metals, industry players told *Business Standard*.

A gauge of capacity utilisation is also provided by the RBI data on working capital loans. In line with the trend of rising capacity utilisation rates, working capital loans grew 6.4 per cent in the July-September quarter of 2017-18, up from 4.8 per cent in the preceding quarter. It had plummeted to a low of 1 per cent in the fourth quarter of 2016-17.

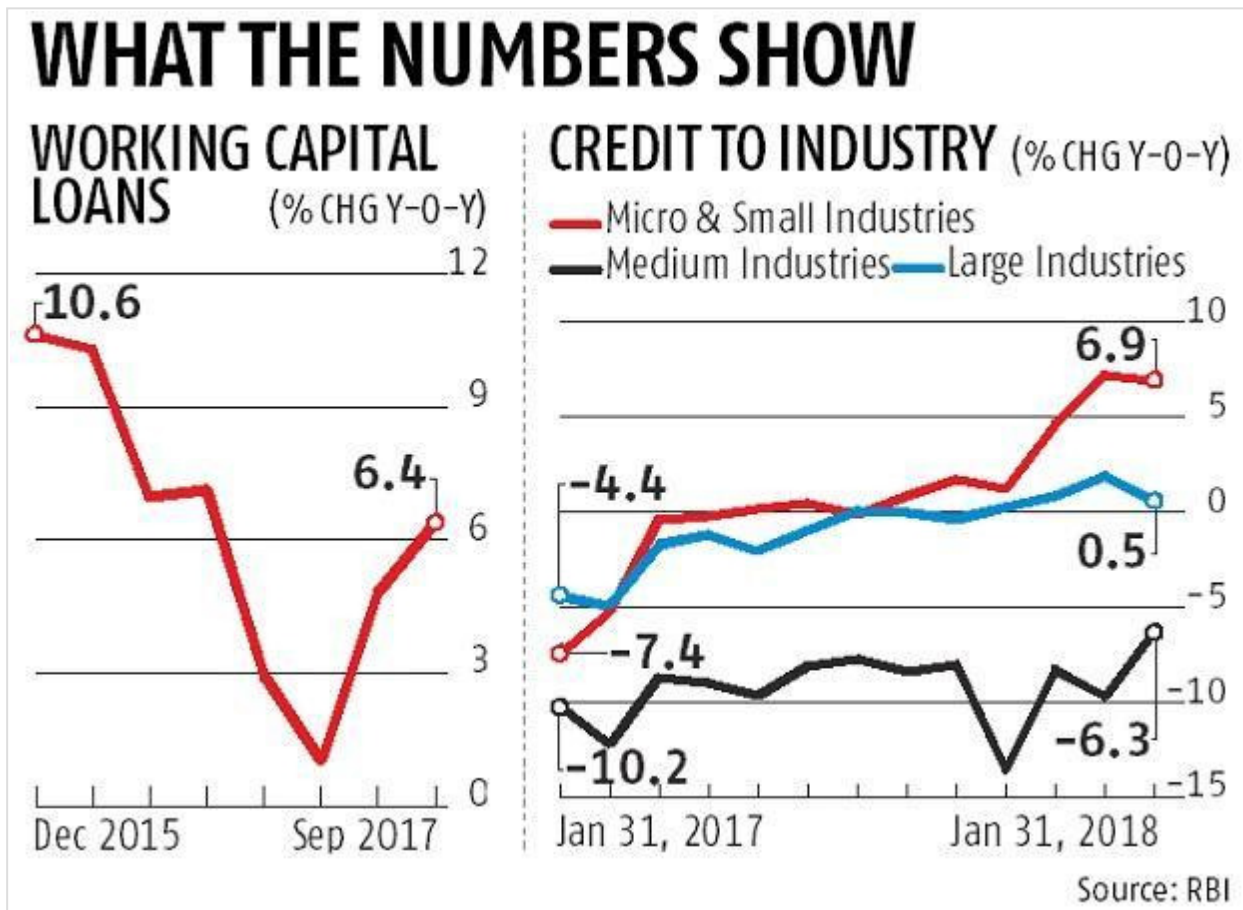
“Our order intake has risen 20 to 25 per cent in 2017-18, signalling 80 per cent capacity utilisation in certain sectors like cement. Some of the sectors with high orders included food processing, alcohol and the carbon black industry,” said M S Unnikrishnan, managing director and chief executive officer, Thermax.

An executive at one of India’s largest heavy machinery supplier to original equipment manufacturers said his firm’s capacity utilisation had improved to 80 per cent in the later part of the current financial year, up from 60 per cent two years ago.

"The ban on overloading boosted demand for trucks and raised the demand for machinery from original equipment manufacturers. There is also a rise in demand from commercial vehicles manufacturers in North America," he said.

Estimates of working capital loans have been derived from data on credit extended by banks through instruments, including cash credit, overdraft, packing credit, and inland and foreign bills purchased/discounted. The RBI is yet to come up with data on capacity utilisation rates for the third quarter of 2017-18. The last survey had shown the capacity utilisation rate at 71.8 in the second quarter of 2017-18, marginally up from 71.2 in the first quarter.

In other sectors, too, a similar rise in utilisation rates was observed.



Tractor sale volumes grew 19 per cent in April - February 2017-18, and sales in absolute terms were the highest ever, said Rajesh Jejurikar, president, farm equipment sector, Mahindra and Mahindra. "As a result, our suppliers in the casting and sheet metal industry, mostly

medium and small enterprises, are also part of the growth momentum. We see our suppliers preparing investments to increase their production capacity," he said.

According to Jejurikar, early signs of revival were visible initially in the core sector.

"Government-led spending in agriculture and infrastructure seemed to have stimulated demand," he added.

Cement production in India clocked its highest monthly production in the last three years in January 2018, according to data from the Cement Manufacturers Association of India. Affordable housing and infrastructure uptick will take capacity utilisation in the cement industry to 80% very soon, said Jagdeep Verma, head of business consulting at Holtec Consulting India.

However, economists Business Standard spoke to are sceptical about drawing inferences about a revival in the investment cycle from the rise in capacity utilisation.

“While we are seeing capacity utilisation rise across the board, it remains below the threshold, beyond which companies start fresh investments” said D K Joshi, chief economist at rating agency Crisil.

Also, while working capital loans can be traced to higher capacity utilisation, experts advise caution.

“Normally, we use working capital loans as an indicator of production activity, but this time with the shift to the goods and services tax (GST), we do not know how much of this is because of problems in the refund process,” said Pronab Sen, former chief statistician of India.

The RBI data also shows that even as bank credit to large industries remains depressed, credit to micro and small industries is steadily picking up. Further, housing loans, which account for over 50 per cent of personal loans, are seeing robust growth. So are vehicle loans.

Credit to micro and small industries grew 6.9 per cent in January 2017, up from 1.2 per cent in October. In comparison, credit to medium-sized industries contracted 6.3 per cent in January, while that to large industries rose by a mere 0.5 per cent.