



VARDHAMAN CAPITAL



## Research Report on Manufacturing Sector

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# Corporate India's Capital Expenditure Cycle

## SUMMARY

Corporate India's capital expenditure accelerated to a six-year high in H1 FY26, with fixed assets growing 13.1% Y-o-Y (20% including oil & gas). This represents a measured revival driven by public sector spending, mega-corporate investments, and strategic positioning in renewables and digital infrastructure. However, subdued credit growth and declining capacity utilization suggest the cycle remains concentrated rather than broad-based.

Key Metric	H1 FY26 Performance
Fixed Asset Growth (ex-BFSI, oil & gas)	13.1% Y-o-Y (₹37.78 trillion)
Total Capex (including oil & gas)	20.0% Y-o-Y (₹60.8 trillion)
Central Government Capex	40% Y-o-Y (29% adjusted)
State Government Capex (19 states)	13% Y-o-Y
Industrial Credit Growth	7.3% (Large industry: 2.4%)
Capacity Utilization (Sales-to-Assets)	167.9% (down from 180.6%)

## TOP CAPEX CONTRIBUTORS

Five companies accounted for nearly 30% of total capex:

- **Reliance Industries:** ₹4.9 trillion addition (84.2% growth), driven by new energy, media, and chemicals
- **Grasim Industries:** 30% growth to ₹1.25 trillion, led by UltraTech cement expansion
- **Adani Enterprises:** 25.2% growth to ₹1.42 trillion across diversified infrastructure
- **NTPC:** 8% growth to ₹3.82 trillion in renewable energy and grid modernization
- **Tata Steel & Power Grid:** 13.6% and 7.5% growth respectively in capacity and transmission`

## Assets utilisation: Ebb & flow



## Cement: 75% Capacity Expansion

Industry planning ₹1.2 trillion investment across FY25-FY26. UltraTech's 41.2% asset growth driven by Kesoram acquisition and new plants. Notably financed through internal cash flows rather than debt.

## Power & Renewables: 73% Growth

Renewable capacity additions accelerating from 28 GW (FY25) to 41 GW (FY26) to 53 GW (FY28). Grid-scale battery storage emerging as new investment category. Transmission infrastructure modernization for higher renewable penetration.

## Data Centers: \$30 Billion Pipeline

Google, TCS, TPG, Brookfield, and Reliance committing nearly \$30 billion. Data centers represent 25% of non-financial services announcements, driven by AI workloads and cloud penetration.

## Automobiles: 25% Growth in EV Transition

Investments in EV platforms, battery assembly, hybrid powertrains, and supplier ecosystem development for electric mobility.

## THE CREDIT-CAPEX PARADOX

Despite robust capex, industrial credit grew only 7.3% (large industry: 2.4%). This disconnect reflects:

- **Internal Cash Flow Dominance:** Companies leveraging multi-year profit expansion and deleveraged balance sheets
- **Sectoral Mix:** Renewables and cement have lower working capital needs than traditional heavy industries
- **Execution Lag:** Bank lending typically follows announcements by 6-12 months as projects enter construction phase
- **Alternative Funding:** Corporate bonds (₹5.5 trillion H1 FY26), FDI (doubled Y-o-Y), and equity markets providing capital

Early signals suggest credit may accelerate: SBI projects double-digit growth; engineering sector credit up 22.5%; RBI economists expect substantial capex increase.

## INVESTMENT IMPLICATIONS

### Assessment: Measured Revival, Not Boom

This is an early-phase capex upturn rather than a full investment cycle. Foundation strengthening but broad-based private participation yet to emerge.

### Positioning Strategy

Favor selectivity over thematic breadth. Focus on:

- **Tier 1 - Direct Execution:** EPC contractors with strong order books, capital goods manufacturers, building materials suppliers
- **Tier 2 - Capacity Creators:** Renewable energy IPPs with PPAs, large conglomerates (Tata, Adani, Reliance, Birla), infrastructure asset owners
- **Tier 3 - Enablers:** Select banks positioned for credit acceleration, infrastructure NBFCs, engineering services firms

## KEY RISKS

- **Fiscal Constraint:** Revenue shortfalls could force government capex moderation
- **Private Sector Hesitation:** Cycle remains dependent on public spending and mega-corporates
- **Demand Weakness:** Subdued consumption raises questions about capacity absorption
- **Utilization Decline:** Sales-to-assets ratio at 167.9% approaching cautionary threshold of 160%
- **Execution Challenges:** Announcements (₹15.1 trillion) far exceed completions (₹4.1 trillion)
- **Commodity Volatility:** Steel, cement, energy price fluctuations impact project economics

## MONITORING FRAMEWORK

Track these leading indicators quarterly:

- Fixed asset additions across broad company samples
- Capital goods and EPC contractor order inflows
- Industrial credit growth, especially to large corporates
- Government capex execution vs. budget estimates
- Capacity utilization and sales-to-assets ratios
- Project completions vs. announcements
- FDI flows in manufacturing and infrastructure
- Commodity price trends (steel, cement, energy)

## CONCLUSION

Corporate India's capex engine is running but has not yet shifted into the top gear that would characterize a full-fledged investment super cycle. The current cycle is distinguished by public sector leadership, balance sheet strength enabling internal funding, sectoral concentration in mega-corporates, and forward-looking positioning in renewables and digital infrastructure.

The next 12-18 months will determine whether India transitions from a public-led recovery to a broad-based private investment cycle. Investors should maintain:

- Constructive but cautious stance on the cycle
- Selectivity over thematic breadth in stock selection
- Focus on execution visibility rather than announcements
- Close monitoring of leading indicators
- Valuation discipline given elevated market multiples

Patience, selectivity, and disciplined risk management remain paramount as this cycle unfolds.

India's manufacturing capex cycle is witnessing a measured revival, led by government spending and large corporates. However, private sector participation is still gradual, making this an early-phase opportunity rather than a full super cycle.

◆ **How Investors Can Participate**

Investors can gain diversified exposure through:

- **Nifty India Manufacturing Index**
- **BSE India Manufacturing Index**

Investment routes include ETFs and Index Funds tracking these indices.

◆ **Strategy View**

Maintain a constructive but selective approach. Increase allocation only if:

- Industrial credit growth accelerates
- Capacity utilization improves
- Private sector capex broadens

**Conclusion:** Accumulate gradually with long-term (3–5 year) perspective and disciplined risk management.

**Source:** Business Standard Research Bureau, Company filing, Upstock, CareEdge Ratings and CMIE Economic.

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