

# Pharmaceuticals, IT, Ferrous & Non-Ferrous, Textiles, Auto Part Cos Shine Cos capex spend paying off now

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ETIC

**R**OBUST performance of companies has been driven by capacities set up five to six years ago. Sales and profit growth have been high due to rising demand and better price realizations. A benign macro environment of growing disposable income, low inflation and low interest rates helped too. As capacity utilisation peaks, however, future volume growth will come from expansion and new plants.

In FY'05, companies started implementing expansion plans and FY'06 has seen a significant increase in fixed assets, signalling more capacity coming on stream. Fixed asset addition during FY'06 has increased by 27.1%. The current fiscal year will see high growth too, as capital work in progress (CWIP) has increased by 58%. The analysis is based on data available for over 600 companies with gross fixed assets (GFA) of Rs 334,600 crore. During FY'05, fixed asset addition was 13.8%, which is not low either, and CWIP growth was 55%. High growth of projects under completion in FY'06 indicates significant additions in the current fiscal too. The largest company in the list is Reliance Industries, with its GFA of Rs 90,204 crore rising by 55% during FY'06. Growth in its CWIP is relatively high at 44% indicating more to come in the current fiscal. Its cap-



**LEAPS & BOUNDS**

**Cos Showing High Growth In Capex During FY'06**

	GFA	Chg (%)	CWIP	Chg (%)
<b>RIL</b>	<b>90,205</b>	<b>55.0</b>	<b>6,958</b>	<b>44.1</b>
<b>JSW Steel</b>	<b>10,339</b>	<b>31.4</b>	<b>1,862</b>	<b>433.0</b>
<b>Tata Motors</b>	<b>8,639</b>	<b>24.5</b>	<b>951</b>	<b>76.5</b>
<b>CESC</b>	<b>8,392</b>	<b>33.2</b>	<b>131</b>	<b>35.5</b>
<b>Indo Rama</b>	<b>2,577</b>	<b>15.8</b>	<b>426</b>	<b>304.8</b>
<b>Infosys</b>	<b>3,408</b>	<b>38.6</b>	<b>571</b>	<b>79.6</b>
<b>Wipro</b>	<b>2,960</b>	<b>48.2</b>	<b>612</b>	<b>144.7</b>
<b>MICO</b>	<b>1,911</b>	<b>23.2</b>	<b>88</b>	<b>37.4</b>
<b>MRF</b>	<b>1,782</b>	<b>16.6</b>	<b>152</b>	<b>22.6</b>
<b>Kesoram</b>	<b>1,424</b>	<b>18.2</b>	<b>208</b>	<b>294.0</b>

GFA: Gross Fixed Assets, CWIP: Capital Work-in-Progress (Rs Cr)

Source: Prowess

ital expenditure was in petrochemical expansion, setting up a retail network, and E&P activities. It is investing more in these, except in expanding its retail network, which will reflect in the current year.

The software industry may not seem asset intensive as people are its main assets. But seating these people and giving them the equipment to run the business puts them high on the list, in terms of growth and even size. Infosys Technologies' GFA grew by 38.6% to Rs 3,408 crore while its CWIP grew by 79.6% to Rs 571 crore, higher than FY'05 growth of 56.3%. Wipro's figures are higher: GFA is higher by 48.2% to Rs 2,959.9 crore and CWIP is

up by nearly 2.5 times to Rs 612.4 crore. Ditto for TCS. GFA is up by 69% to Rs 1,962 crore and CWIP is up by 133%. Capital investments by IT companies are equally spread between land & buildings and plant & machinery.

Automobile companies have also seen increases in GFA, in the range of 6-10% for companies like Bajaj Auto, M&M, and Ashok Leyland. Tata Motors is an exception with its fixed assets increasing by 24.5% to Rs 8,639 crore, due to investments for Tata Ace and product development expenditure for its proposed new initiatives. CWIP at Rs 951 crore has increased by 76.5% during the year. It has plans for

new car platforms to new truck models. Metal companies show a mixed trend partly due to their high base, affecting percentage growth. Also, companies like Tata Steel and Hindalco have made significant capital investments in FY'05 too. Despite these two companies making fixed asset additions of Rs 1157 crore and Rs 833 crore respectively, the growth was only 10.2% and 11.2% respectively. JSW Steel's GFA grew by 31% to 10,339.5 crore but this is primarily due to the merger of group companies. But FY'07 will see growth due to implementation of crude steel capacity expansion, pellet plant capacity expansion and increase in hot strip mill rolling capacity. Its CWIP has increased three-fold to Rs 1,861.9 crore during FY'06.

Other sectors that have seen an increase in both fixed asset addition and CWIP are textiles, pharmaceuticals, auto components, engineering companies and sugar companies. The capacity addition that has already happened and more that is expected during the current fiscal will fuel sales growth for these companies. However, higher raw material prices, energy and freight costs have resulted in a changed profit scenario compared to what was seen a couple of years ago, when these projects were conceptualised. The addition to profits may not be as strong hence. Also, higher interest and depreciation costs too may start figuring in FY'07 financials due to the increase in fixed assets.