

# SectorVector

## Reading the topical trends

September 2021

### The big undershoot

#### Actual capex of states may come up well short

India's top 21 states - accounting for more than 90% of aggregate state capital expenditure - are aiming for an ambitious 36% rise in capital outlay this fiscal (to Rs 6 lakh crore) over revised estimates of fiscal 2021 (Rs 4.4 lakh crore).

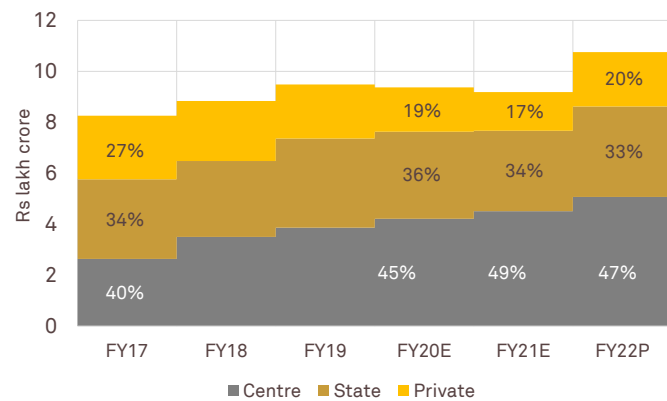
Last fiscal, they spent 82% of the budgeted capital outlay, posting a modest 11% rise on-year over a low base of fiscal

2020 (which saw a marked dip in actual capex due to post-election lethargy in many states and at the Centre).

For a number of reasons, we see the 36% target as overstated. Rather, we expect a similar 11-13% rise in capex this fiscal too, assuming that states spend 80-85% of the budgeted estimate.

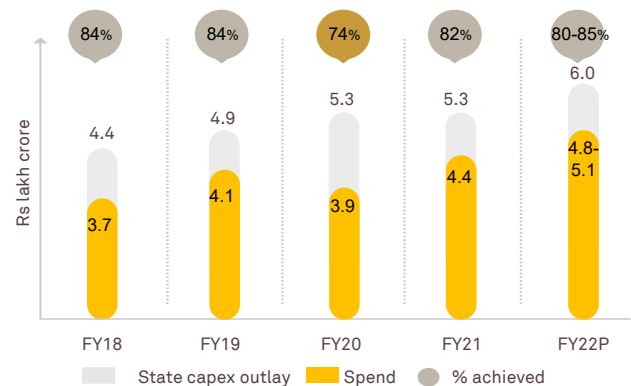
For one, states have been losing share in the Centre-state mix in infrastructure spends<sup>1</sup> since end-fiscal 2019 (see chart below), after a good run in the years prior.

#### Infrastructure spending by states has lost steam



Notes: Includes spend on core infrastructure sectors - roads, railways, power, urban infrastructure, irrigation, airports, ports, warehousing, telecom towers and telecom networks  
Source: NITI Aayog, state and central budget documents, CRISIL Research

#### State capex in FY21 higher than the preceding three fiscals



Notes: For a sample of 21 states and union territories  
Source: State budget documents, CRISIL Research

There is also a discernable shift in the sectors to where the money is flowing.

From a steady increase in water supply and urban transport outlays earlier, more funds were directed towards roads last fiscal, i.e. the pandemic year. Notably, the achievement ratio for roads at 96% far surpasses

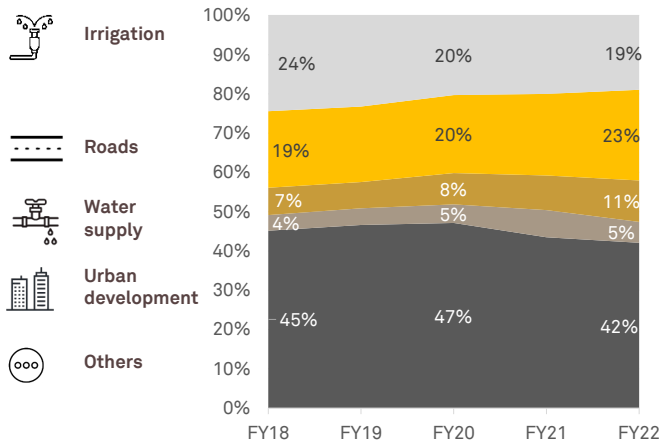
82-83% for water, urban transport, and irrigation.

Also, a larger part for funds earmarked for capex was diverted for Covid-related expenses.

These trends are expected to continue this fiscal too.

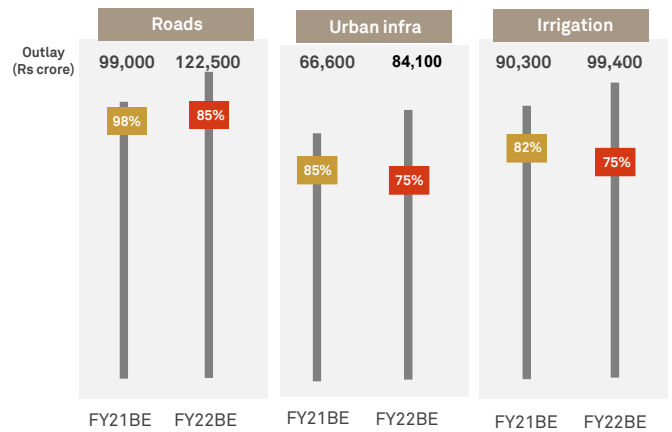
<sup>1</sup>Based on CRISIL estimates, states spend 50-60% of capital outlay on core infrastructure sectors listed under Chart 1

**States have been providing higher outlays for water supply/sanitation and urban development...**



Notes: For a sample of 15 states  
Source: State budget documents, CRISIL Research

**The achievement ratio for water supply and irrigation was lower in FY21 owing to fund diversion towards roads**



Note: For a sample of 15 states; figures in coloured boxes denote achievement ratio  
Source: State budget documents, CRISIL Research

Hence, even if states spend 80-85% of the budget (which has been the norm), we expect they would post only 11-13% on-year growth in capex this fiscal, to Rs 4.8-5.1 lakh crore.

To be sure, capex 'doubled' in the first quarter of this fiscal, over a low year-ago base. But that really just levelled it up with spends in the first quarter of fiscal 2020 (see 1<sup>st</sup> chart from the left below).

Nevertheless, a healthy 36% on-year rise in revenue collection in this fiscal's first quarter despite the

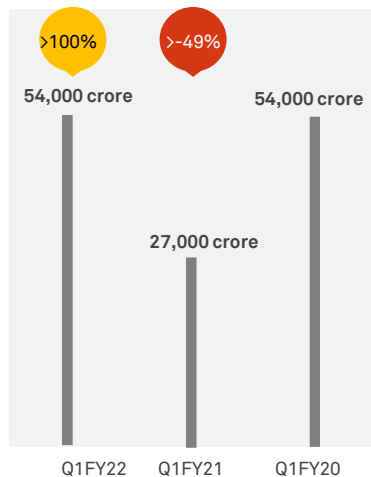
impact of the brutal second wave, has supported spends. A continuation of this trend is expected to propel capex for the remaining part of the fiscal, too.

But many counteracting forces prevail to keep the momentum low.

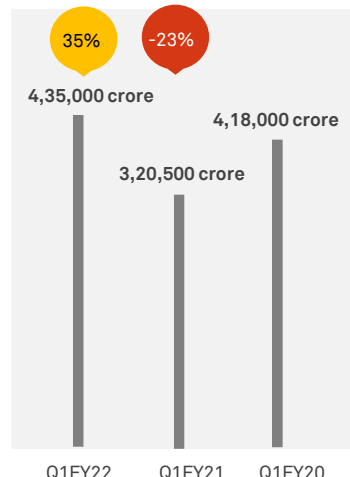
Six states (Gujarat, Maharashtra, Karnataka, Tamil Nadu, Odisha and Jharkhand), more impacted by the second wave, saw a higher diversion of funds for Covid expenditure, resulting in capex falling even below that in the first quarter of fiscal 2020.

**State capex has come a full circle in 2 years**

(y-o-y)

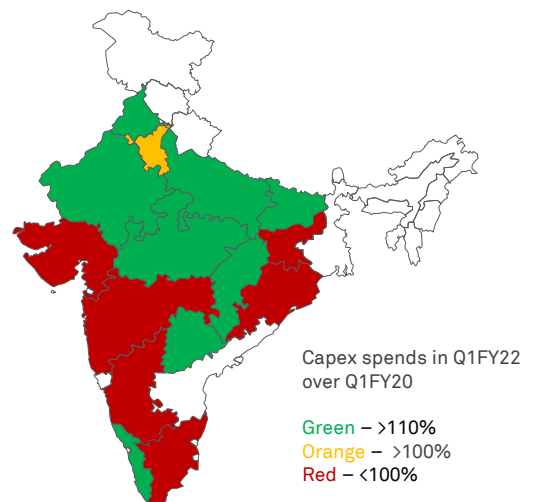


**Healthy rise in state revenue in Q1FY22 to support rising capex**



Note: For a sample of 15 states; numbers in bubbles indicate on-year change  
Source: State budget documents, CRISIL Research

**Capex of nine states in Q1FY22 rose 117% over Q1FY21 and 30% over Q1FY20**



Notes: For a sample of 15 states.  
Source: State budget documents, CRISIL Research

There are other signs too.

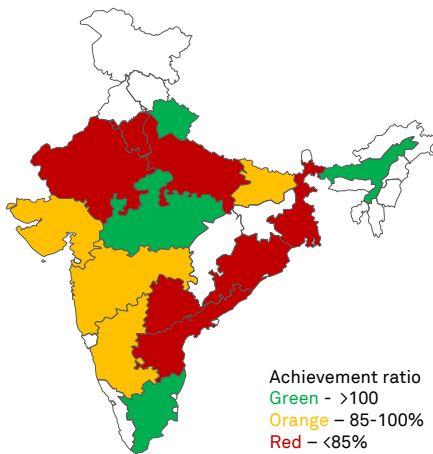
Only four surpassed budgeted spends last fiscal. Clearly, the axe fell on capex, with the pandemic weighing on revenue collections and necessitating higher health and social expenditure (see chart below).

In Assam and Bihar, which went to polls recently, budgeted outlay has actually dropped this fiscal, over revised estimates of fiscal 2021.

And finally, most states have precarious debt levels. Only three had comfortable debt (i.e lower than one-fifth of their respective GDP as per 2017 FRBM review committee recommendations) as per revised estimates of fiscal 2021. These elevated debt levels would constrain states' ability for higher spending on capital expenditure.

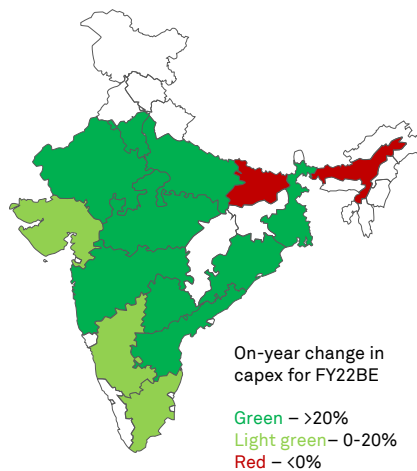
All this, we forecast, will restrain states' capex growth to 11-13% this fiscal.

**Only four states have managed to surpass their budgeted capex in pandemic-impacted FY21**



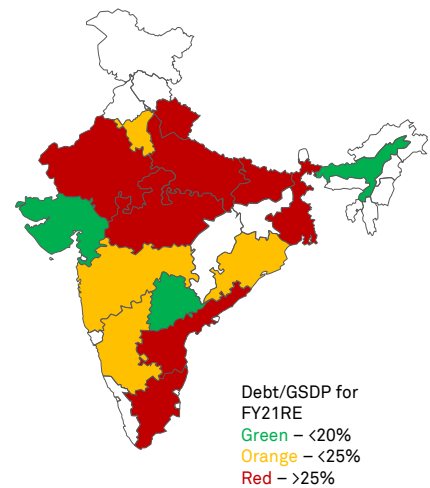
Notes: Achievement ratio = FY21RE / FY21BE; selected states account for more than three-fourths of state capex  
Source: State budget documents, CRISIL Research

**13 states have guided for a 45% rise in capital outlay ...**



Notes: Capex outlay for states considered; selected states account for more than three-fourths of state capex  
Source: State budget documents, CRISIL Research

**...However, Debt for 8 has surpassed a quarter of their GSDPs in the pandemic-impacted fiscal**



Notes: Selected states account for more than three-fourths of state capex  
Source: State budget documents, CRISIL Research

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