

India on the path to its next industrial revolution, say analysts

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NEW DELHI: India is on the path to its next industrial revolution, Industry 4.0, as per analysts at Anand Rath Share and Stock Brokers.

Multi-nationals are either ramping up capacity or setting up plants to transform India into another export hub for their global supply chains; small industries are moving up to mid-size, and mid-size to large, in the process creating momentum in the capex cycle, the brokerage said.

This capex cycle is expected to be driven by core and new-age industries with impetus from public and private spending. However, till now, demand from many core industries has been subdued (cement, metal, mining, textiles, chemicals, pharma, etc.); meanwhile, demand from power T&D, urban infrastructure and the Railways has been robust. The latter falls under the purview of the government and has seen record investment. This, we believe has created the perfect condition for pulling in private investment, the analysts said.

The Indian economy has grown significantly in recent years, growth coming chiefly from higher government spending. Gross Fixed Capital Formation (GFCF), as percent of GDP, touched a many-year high in Q3 FY24. Such higher spending in turn started, in the otherwise soft capital goods sector, a new cycle based on expectation of growth coming not only from traditional core industries but also from new-age ones. The government-induced capex was expected to "crowd-in" private investment, and we are now seeing green-shoots in private capex, the analysts said.

"We believe that this cycle for capital goods would be of many years and longer than previous ones. This time, growth would also be driven by new-age themes such as energy efficiency, de-carbonisation and digitalisation. These themes, as a result, are driving demand for technologically-advanced products in power transmission, renewables, the Railways and metro-rail, data centres, digital industries, power solutions," the brokerage said.

This space represents opportunities for companies. These include opportunities of Rs 300 billion in Vande Bharat till FY26.

"We estimate this based on the FY22 budget target and tenders awarded till now. Of this, we estimate Rs120bn potential for propulsion systems," the brokerage said.

It also includes opportunities of Rs 1.5 trillion in inter-state transmission systems till FY27, based on the CEA's latest electrification plan. This includes sub-systems and transmission lines.

In addition, there is a Rs 4.4 trillion potential from the PLI scheme till FY28. We estimate total investments under PLI scheme at Rs 5.5 trillion (Rs 1.1 trillion already made), analysts said.

It also represents opportunities of Rs 376 bn in data centres till FY26. This is the development cost based on past transactions and an estimated 1,800 MW of cumulative capacity by FY26. Of this, 45 per cent would be in power distribution and electrification, the analysts said.