India's Capex Outlook Optimistic Despite Persistent Headwinds

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Investment activity creates positive spillovers for the overall economy by boosting employment, income and productive capacities. Sustained investment creates multiplier effects that support both near-term economic performance and long-term growth prospects. The importance of investment in sustaining economic momentum is particularly evident in the current environment. Despite several economic headwinds globally, the Indian economy demonstrated resilient performance, rising by 7.8% in Q1 FY27. This better-than-expected economic performance was supported by strong growth in gross fixed capital formation (GFCF), which accelerated to 12% in Q1 FY27 following 10.5% growth in Q4 FY26, marking double-digit growth for two consecutive quarters. Aided by this continued strong momentum, the GFCF-to-GDP ratio rose to 34.3% in Q1 FY27, up from 31.4% in Q1 FY26. This is also the highest in the new GDP series. The government's continued thrust on capex-led growth in the post-pandemic period has been a key positive for the investment scenario. However, the critical question is whether private capex is showing signs of a pick-up, as it remains critical to sustaining the overall capex cycle in the medium term.

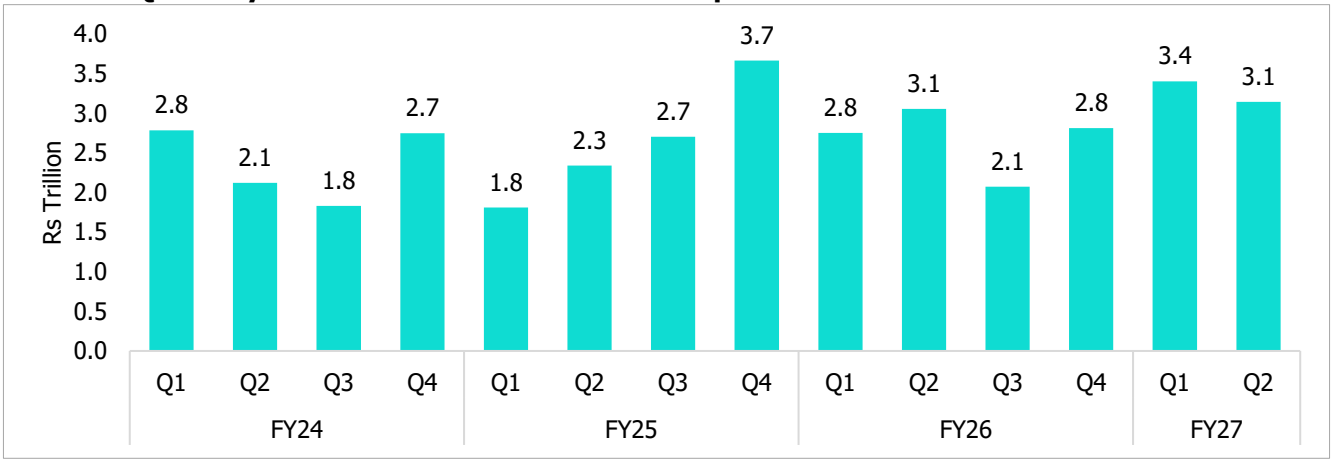
In this context, our report presents a comprehensive assessment of the overall investment scenario in the Indian economy. Our report is broadly divided into four sections: **Section I** evaluates the trends in public sector capex; **Section II** evaluates the capex performance of a select sample of listed Indian corporations; **Section III** looks at some other emerging sectors driving India's capex scenario; **Section IV** presents an overview of the overall investment projects announced and completed; **Section V** presents a brief overview of investment-related economic indicators; and **Section VI** assesses the sources of funding.

I. Trends in Public Sector Capex

Central Government Capex Stays Upbeat

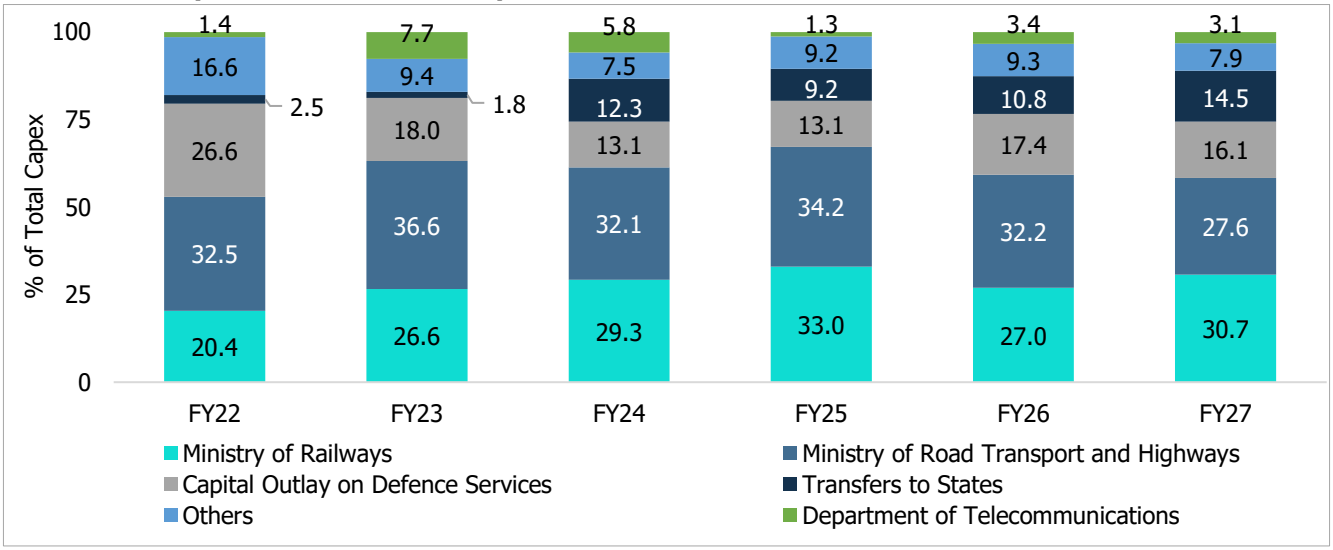
The Centre's thrust on capex has been a key theme across Union Budgets since the pandemic. The Centre's capex as a percentage of GDP budgeted has climbed to a steady 3.1% in FY27 from 1.7%. During H1 FY27, the Centre's capital expenditure rose by 12.7%, with the Ministries of Railways and Road Transport & Highways continuing to account for the largest share of the capital outlay (Refer to Exhibit 2). Outgo to the Department of Food & Public Distribution (DFPD) stood at Rs 500 billion, likely reflecting a temporary credit extended to the Food Corporation of India (FCI), which is expected to be offset against food subsidy allocations in the coming months. Adjusting for this component, the Centre's capex growth was stronger at 13.9% (y-o-y) over the last year. In addition, the Centre front-loaded capital transfers to states, likely due to higher releases under the Special Assistance to States for Capital Investment (SASCI) scheme. As a result, capital transfers to states constituted 13.4% of total capital spending (unadjusted for DFPD capital outgo) in H1 FY27, compared with 9.8% in the corresponding period last year. Beyond this, the Centre has also allocated Rs 4.9 trillion as Grants-in-Aid for the creation of capital assets to states and other local bodies in FY27.

Exhibit 1: Quarterly Trends in Central Government Capex



Source: CMIE, CGA, CareEdge

Exhibit 2: Composition of Centre's Capex in H1



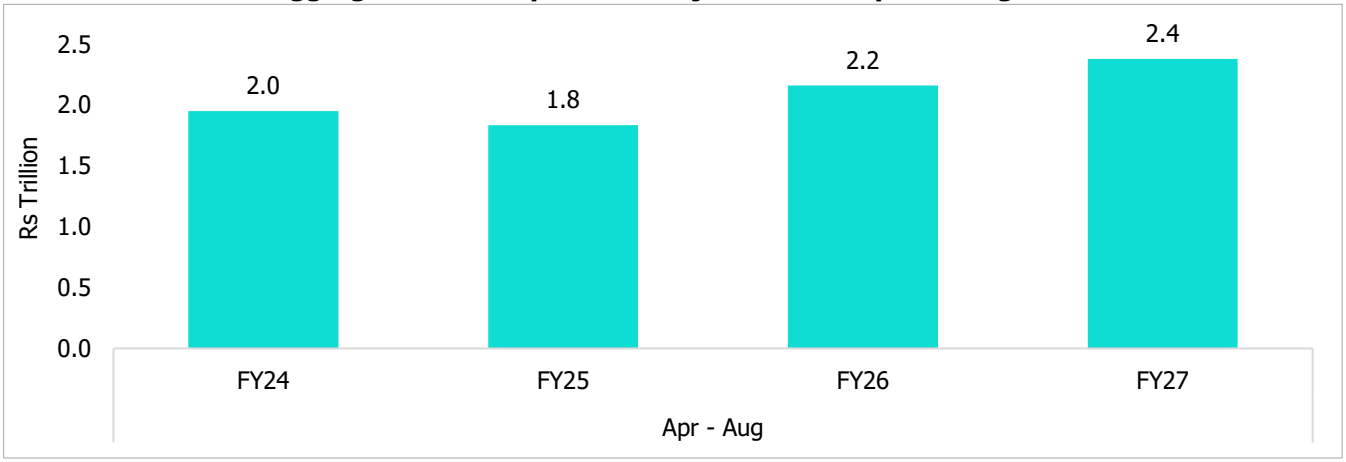
Source: CMIE, CGA, CareEdge; Note – Data is adjusted for capex by DFPD

Capex by State Governments Records Encouraging Growth

Aggregate Capital expenditure by the top 20 states[1] rose by 10.2% y-o-y to Rs 2.4 trillion during Apr-Aug FY27 (5M FY27), with these states collectively utilising 21.4% of their budgeted capex (compared to 20.8% in the corresponding period of the previous year). Capex performance varied significantly across states. Among the largest capex spenders, Gujarat and Maharashtra recorded strong growth, extending the growth momentum seen in FY26. Meanwhile, Assam, Chhattisgarh, Kerala, and Punjab registered robust year-on-year growth despite relatively lower absolute spending, with Kerala and Punjab sustaining the momentum from the previous year. In contrast, Telangana, Madhya Pradesh, and West Bengal witnessed a decline in capex during 5M FY27 (Refer to Table 1).

1 The states in the sample are Andhra Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, Uttarakhand and West Bengal

Exhibit 3: Trends in Aggregate State Capex – 20 Major States – April to August Period



Source: CMIE, CGA, CareEdge

Table 1: State-wise Capex – Top 20 States

	Rs Billion	Growth (Y-o-Y %)	Utilisation (% of BE)	
State	**Apr-Aug FY27**	**Apr-Aug FY27**	**Apr-Aug FY27**	**Apr-Aug FY26**
Gujarat	296.7	13.8	27.7	27.3
Maharashtra	242.2	45.5	20.6	14.6
Madhya Pradesh	219.9	-18.7	27.9	32.8
Uttar Pradesh	217.4	1.6	10.1	12.5
Bihar	165.8	-4.4	40.8	41.3
Karnataka	142.5	11.0	19.8	18.8
Andhra Pradesh	137.2	41.9	28.2	23.8
Rajasthan	132.7	29.4	24.6	18.2
Odisha	124.6	11.9	17.3	17.1
Telangana	124.1	-13.4	26.3	39.3
Assam	120.9	41.1	41.0	22.3
Kerala	104.8	59.3	53.1	25.4
Tamil Nadu	97.0	-2.0	16.3	15.9
Haryana	52.3	-14.3	24.0	32.7
Punjab	49.9	221.1	27.1	15.1
Chhattisgarh	42.6	46.8	16.1	11.0
Jharkhand	37.6	-30.2	14.5	25.9
West Bengal	28.9	-38.6	7.1	12.0
Uttarakhand	28.7	30.9	19.5	14.9
Himachal Pradesh	14.4	8.2	46.5	13.0
Total of 20 States	**2,380.2**	**10.2**	**21.4**	**20.8**

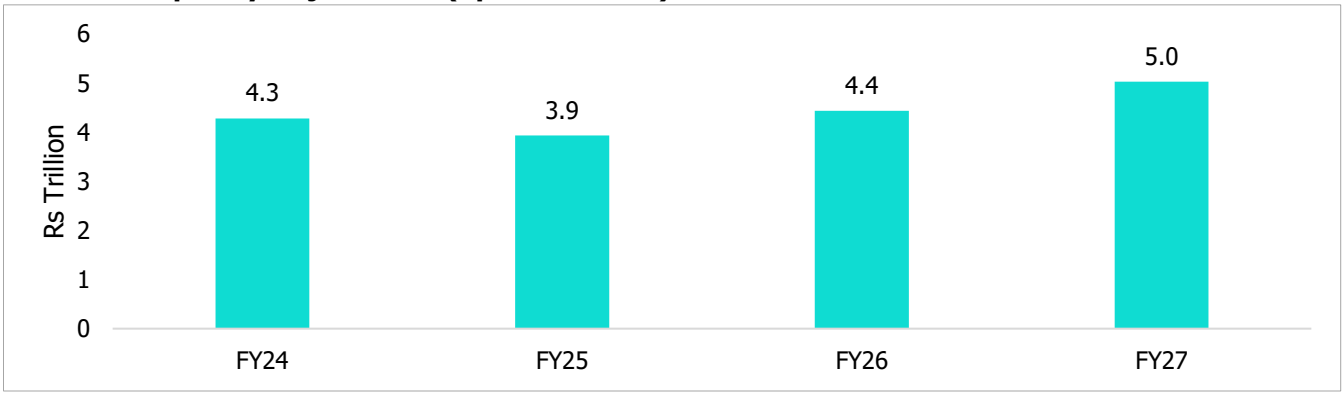
Source: CEIC, CAG, CareEdge;

Capex by Major Central Public Sector Enterprises on Track

Capital expenditure by 63 Central Public Sector Enterprises (CPSEs) and four other government organisations, i.e. Railway Board, National Highways Authority of India, Delhi Metro Rail Corporation and Damodar Valley Corporation, totalled Rs 5 trillion in Apr – Oct FY27 or 60% of the overall target of Rs 8.4 trillion. This represents 13.4% y-o-y growth over this period, compared to 12.7% in FY26. Given this healthy momentum, CPSEs are likely to achieve

or even marginally exceed their target in FY27. It should be noted that the capital expenditure undertaken by these government organisations may overlap with the Centre's capital expenditure, as they also receive Gross Budgetary Support (GBS) from the Government for their projects.

Exhibit 4: Capex by Major CPSEs (April – October)



Source: Department of Public Enterprises, CareEdge

II. Capex Performance of Indian Corporations – Analysis of a Select Sample

Capex by Indian Corporations Shows a Rising Trend

To assess the trends in capex by Indian corporations, we have analysed the annual financial statements of 1,535 non-financial companies. We have adjusted for select outbound investments and acquisitions undertaken by leading domestic companies, as per data availability. Our analysis shows that the aggregate capex of Indian corporates in our sample increased by a healthy 14.9% (y-o-y) to Rs 10.7 trillion in FY26 (Refer to Exhibit 5). Furthermore, it is encouraging to note that the capex by our sample of listed Indian corporations has trended upwards in the post-pandemic period, reaching 3.1% of GDP in FY26 from 2.2% in FY22 (Refer to Exhibit 6).

Exhibit 5: Trends in Capex of Sample of Listed Non-Financial Companies (Rs Trillion)

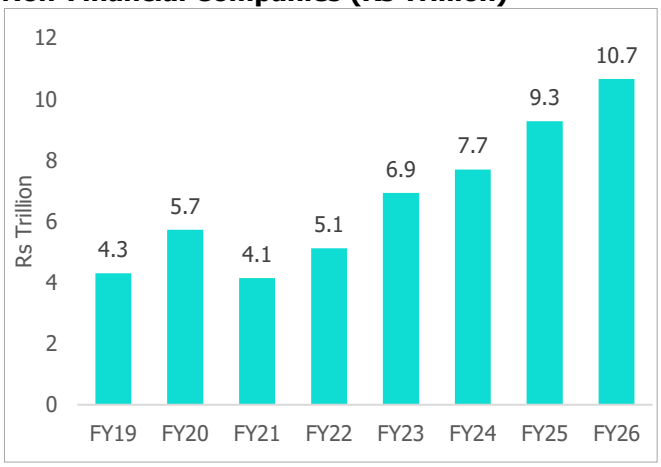
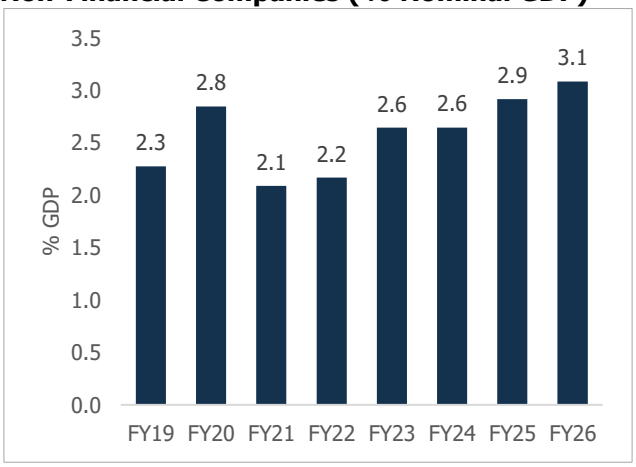


Exhibit 6: Trends in Capex of Sample of Listed Non-Financial Companies (% Nominal GDP)



Source: Ace Equity, CareEdge, based on the analysis of 1,535 non-financial companies; Note: Formula used for capex calculation is (Gross Block + CWIP - Goodwill) of the current year – (Gross Block + CWIP - Goodwill) of the previous year. Our capex computations incorporate adjustments for select outward investments and acquisitions undertaken by leading domestic firms. However, such adjustments are not feasible for all companies, as disclosures on capex incurred outside India are not separately available in many cases; Capex as a percentage of nominal GDP is based on spliced series (2022-23) from CEIC

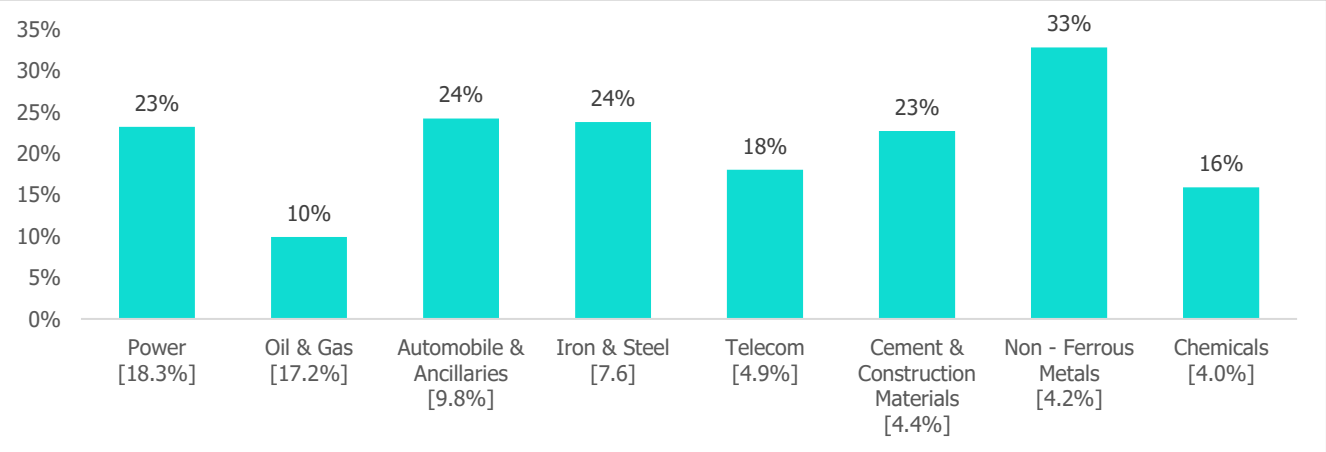
A detailed assessment of the capex trends across sectors shows that capex by listed Indian corporations was driven by sectors such as power (21.7% share in aggregate capex) followed by oil & gas (13.5%), automobile & ancillaries (8.8%), iron & steel (8.3%) and non-ferrous metals (5.1%) – (Refer to Table 2). These top five capex-driving sectors accounted for 57% of the aggregate capex. Furthermore, other emerging sectors like data centres, electric vehicles, renewable energy, semiconductors, etc., are also witnessing healthy capex momentum. However, this will not be captured adequately in the analysis of listed companies. Capex trends in these areas have been explored in the subsequent section of the report.

Table 2: Capex in Major Sectors

	Rs Billion		Share in Aggregate Capex (%)		Growth (%)	
	FY25	FY26	FY25	FY26	FY25	FY26
Power	1,993	2,307	21.5	21.7	93.6	15.7
Oil & Gas	1,445	1,439	15.6	13.5	-9.9	-0.4
Automobile & Ancillaries	829	936	8.9	8.8	-11.4	12.9
Iron & Steel	641	885	6.9	8.3	7.1	38.2
Non - Ferrous Metals	403	539	4.3	5.1	14.7	33.7
Telecom	459	526	5.0	4.9	8.7	14.5
Cement & Construction Materials	552	441	6.0	4.1	71.7	-20.1
Chemicals	299	410	3.2	3.8	-4.0	37.3

Source: Ace Equity, CareEdge, based on the analysis of 1,535 non-financial companies; Note: Formula used for capex calculation is (Gross Block + CWIP - Goodwill) of the current year – (Gross Block + CWIP - Goodwill) of the previous year. Our capex computations incorporate adjustments for select outward investments and acquisitions undertaken by leading domestic firms. However, such adjustments are not feasible for all companies, as disclosures on capex incurred outside India are not separately available in many cases.

Exhibit 7: Sectors Driving Capex – CAGR Growth (FY22-FY26)



Source: Ace Equity, CareEdge, based on the analysis of 1,535 non-financial companies; Note: Formula used for capex calculation is (Gross Block + CWIP - Goodwill) of the current year – (Gross Block + CWIP - Goodwill) of the previous year. Our capex computations incorporate adjustments for select outward investments and acquisitions undertaken by leading domestic firms. However, such adjustments are not feasible for all companies, as disclosures on capex incurred outside India are not separately available in many cases; Figures in brackets represent the average percentage share in aggregate capex for the period FY22-FY26.

Order Books Look Healthy for Capital Goods and Infrastructure Sector

To gauge the future capex intentions of Indian corporations, we have analysed the order book data for a sample of companies to gain insight into their prospective investment pipeline. The capital goods and infrastructure sectors play a vital role in steering the overall economic growth given their strong linkages with other sectors. Investment

in these critical sectors generates significant multiplier effects in the economy. Our analysis for a select sample shows that the order books of infrastructure companies increased by an encouraging 23.6% (y-o-y) to Rs 11.9 trillion as of end-June 2026 (Refer to Exhibit 8). This growth follows 12.7% growth over end-June 2025 and end-Sept 2024. The order books of select capital goods companies also exhibited encouraging momentum, rising by 16.5% (y-o-y) to Rs 7 trillion in FY26 (Refer to Exhibit 9). This follows a robust 17.1% growth in the previous year. The order books of capital goods companies rose by a further 5% as of end-June 2026 compared to end-March 2026 levels. Encouraging growth in the order book position of both infrastructure and capital goods companies reflects a positive capex pipeline.

Exhibit 8: Order Book Position – Infrastructure Companies

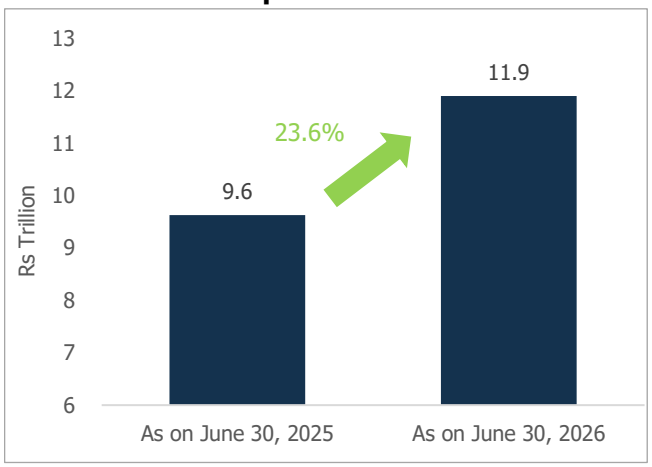
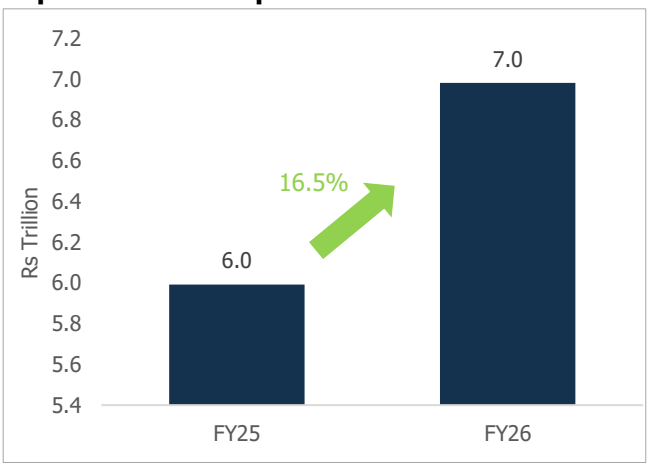


Exhibit 9: Order Book Position – Capital Goods Companies



Source: Annual Reports of a representative sample of companies (fifteen infrastructure companies and seven capital goods companies) and their information available with stock exchanges, CareEdge estimates

III. Emerging Sectors Driving India's Capex Scenario

Renewable Energy

The renewable power generation sector, encompassing both listed and unlisted entities, maintained robust growth momentum in FY26, with the addition of ~54 GW of renewable energy (RE) capacity, alongside 5.6 GWh of battery energy storage system (BESS) capacity and ~3 GW of pumped storage project (PSP) capacity during the year. We expect the momentum in renewable energy capacity additions to continue, with annual additions of ~48-53 GW over FY27-FY30. The projected expansion in renewable energy capacity, led by solar power, is expected to sustain capital expenditure in the sector over the medium term. With storage gaining centre stage as the renewable penetration rises, storage capacity additions are expected to exceed 25 GWh in FY27, while cumulative additions over FY27-FY30 are projected at ~170 GWh, comprising both pumped storage projects (PSPs) and battery energy storage systems (BESS). To support this planned capacity expansion, total capital expenditure in the renewable power generation sector, including investments in storage, is expected to grow at a CAGR of ~12% over FY27-FY30.

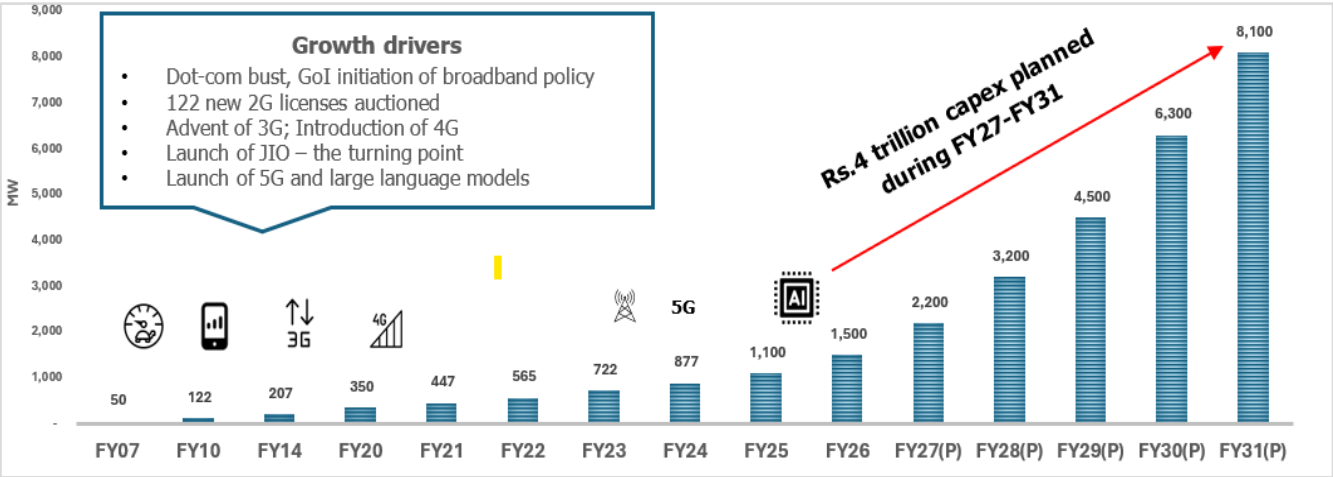
Data Centres

India's data centre industry is growing rapidly. India's cost competitiveness in building Data Centres and the increasing adoption of Artificial Intelligence (AI) are key factors driving strong growth in Data Centres in the country. The cost of constructing and operating Data Centres in India is significantly lower than in many global peers. India's construction costs are roughly 30–40% lower than those of China and the US, supported by relatively lower land prices and benefits from competitive electricity tariffs. Government policy support remains strong, with tax

exemptions announced in the Union Budget FY27 for foreign cloud service providers using India-based data centres until 2047. All these factors make India an attractive destination for Hyperscalers and global Cloud Providers.

India accounts for approximately 4% of the global data centre market in 2026, with co-location capacity of around 1.5 GW. The sector has grown nearly sevenfold over the past decade, driven by rapid digitisation, India's cost competitiveness, and relatively lower land and labour costs. The industry is now entering a capex super cycle, with capacity expected to increase to around 7-8 GW over FY27-FY31. We estimate that co-location operators will invest approx. Rs 4 trillion towards capacity expansion from 1.5 GW in FY26 to 8 GW over the next five years ending FY31. In addition, client-side investments are expected to be substantial, ranging from around 2x for conventional workloads to nearly 5-6x for AI-driven workloads.

Exhibit 10: Data Centre Co-Location Capacity



Source: CareEdge Ratings

Semiconductors

India's semiconductor market is projected to cross USD 100 billion by 2030 from an estimated USD 45-50 billion in 2026, by the virtue of rapid growth in electronics manufacturing, artificial intelligence adoption, electric mobility and digital infrastructure expansion. Rising demand from AI, data centres, automotive electronics, consumer devices and telecommunications is expected to support sustained growth across the semiconductor value chain. Several government initiatives and large-scale investments are expected to support this expansion of India's semiconductor industry. The India Semiconductor Mission has approved 12 projects across six states, with cumulative investment exceeding Rs 1.64 trillion, to build domestic semiconductor manufacturing capabilities and strengthen the supporting ecosystem.

Electric Vehicles

Another sector that is witnessing a surge in capex is the electric vehicles (EVs) segment. EV penetration in India has been strong, with EV adoption rising from 0.08% in FY16 to 8.3% in FY26. This has been supported by targeted government policies and financial incentives. This rapidly growing EV market requires adequate infrastructure, including vehicle and component manufacturing, battery production, and charging stations. This is expected to steer strong capex in this sector in the coming years.

IV. Trends in Investment Projects Announced & Completed

H1 FY27 Investment Announcements & Completions Point to Optimism

Investment projects announced (CMIE Data) jumped 39.4% (y-o-y), rising to Rs 31.7 trillion in H1 FY27 (Refer to Exhibit 11). Continuing the trend seen in previous periods, investment projects announced were driven by the private sector, with a share of 86%. A further assessment shows that the foreign private sector constituted 10% of total private sector investment announcements. The investment projects announced reflect the investment intentions of business enterprises; however, not all such announcements necessarily materialise into actual investments. Investment completions (CMIE Data) stood at Rs 5 trillion in H1 FY27, 11.7% higher compared to the same period last year (Refer to Exhibit 12). The government sector was at the forefront of the investment projects completed, with a share of 61% of the total. Overall, both investment announcements and completions have remained encouraging in the first half of the current fiscal year. Given the usual seasonal pattern of investment activity gaining momentum in the second half of the year, investments are expected to pick up further.

Exhibit 11: Trends in Investment Projects Announced

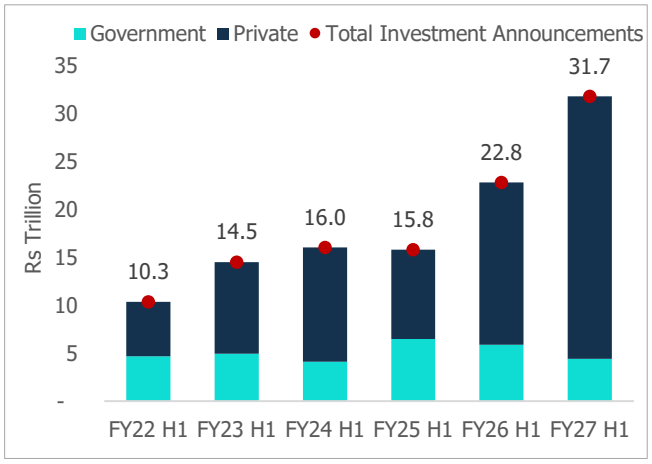
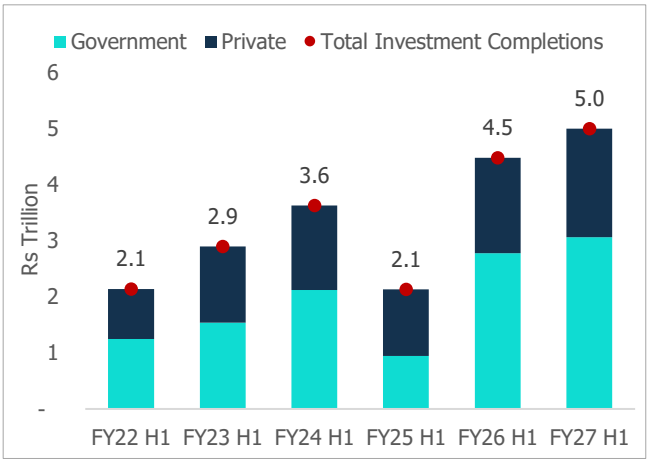


Exhibit 12: Trends in Investment Projects Completed



Source: CMIE, CareEdge; Note: Data extracted on 22nd November 2026; Capex estimates based on CMIE and Ace Equity are not strictly comparable due to differences in sector classifications. Further, Ace Equity reflects a sample of listed non-financial companies, whereas CMIE captures capex across all entities, including government and private (domestic and foreign) firms.

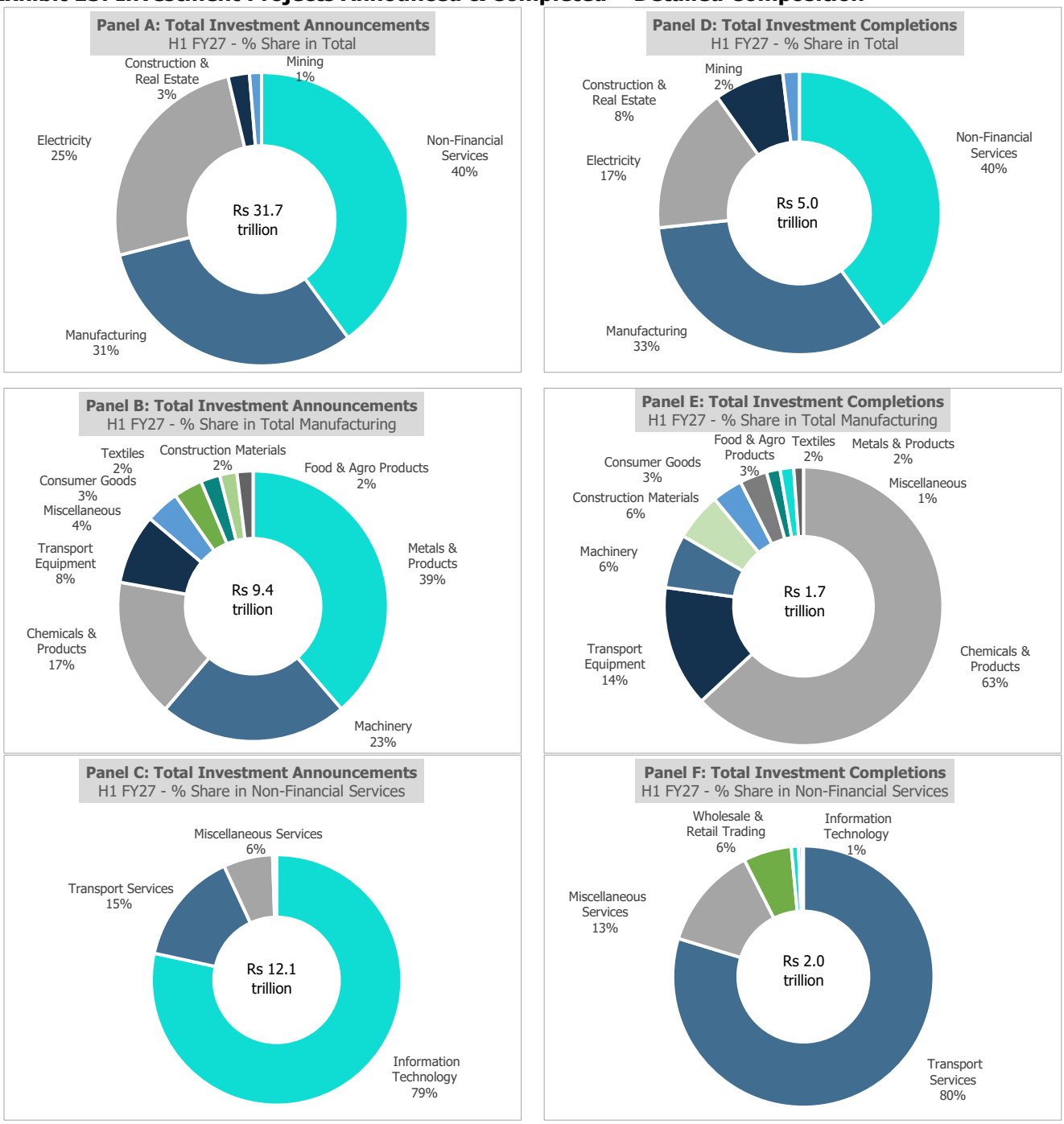
Data Centres Lead the Investment Announcements; Road Infra Services Lead Completions

A large share of investment announcements during H1 FY27 was driven by non-financial services, accounting for 40% of the total. This is followed by the manufacturing sector (31% share) and electricity (25% share) – Refer to Exhibit 13: A. Within the non-financial services sector, a large proportion (79% share) of investment announcements were steered by the information technology segment (mainly data centres) - Refer to Exhibit 13: C. Driven by strong investment activity in data centres, the non-financial services sector has surpassed the manufacturing sector in total investment announcements since H2 FY26. Investment announcements in the manufacturing sector were led by metals (39% share of total manufacturing), followed by machinery (23%) and chemicals (17%) - refer to Exhibit 13: B.

In terms of investment project completions, non-financial services continued to lead with a 40% share of the total. The manufacturing sector followed in second place with a 33% share, followed by electricity with a 17% share (Refer to Exhibit 13: D). Within the non-financial sector, investment completions were concentrated in transport services, comprising an 80% share (Refer to Exhibit 13: F). Road transport infrastructure services led the

investments in this category. Within the manufacturing sector, investment completions were led by chemicals (63% share), followed by transport equipment (14%), mainly automobiles (Refer to Exhibit 13: E).

Exhibit 13: Investment Projects Announced & Completed – Detailed Composition



Source: CMIE, CareEdge; Note: Data extracted on 22nd November 2026; Transport services include transport logistics services and road/railway/air/shipping transport & allied services. Non-financial services include (1) Transport (2) Information Technology (3) Hotels & Tourism (4) Wholesale & Retail Trading (5) Communication and (6) Miscellaneous Services; the manufacturing sector comprises (1) Chemicals (2) Construction Materials (3) Machinery (4) Metals (5) Food & Agro Products (6) Textiles (7) Transport Equipment (8) Consumer Goods and (9) Miscellaneous Manufacturing. Capex estimates based on CMIE and Ace Equity are not strictly comparable due to differences in sector classifications. Further, Ace Equity reflects a sample of listed non-financial companies, whereas CMIE captures capex across all entities, including government and private (domestic & foreign) firms.

Maharashtra Leads Investment Announcements; Rajasthan Tops Project Completions in H1 FY27

In line with the trend observed in FY26, Maharashtra continued to account for the largest share of investment announcements, at 41% of the total. Investments announced in Maharashtra were primarily concentrated in sectors such as ITES (data centres) and conventional power (specifically, nuclear power plant projects). Among other states, Odisha and Andhra Pradesh together accounted for nearly 25% of the total investment announcements (Refer to Table 3). West Bengal recorded a sharp increase in investment announcements, securing the fourth spot, aided by the announcement of an Integrated Semiconductor Manufacturing Industrial Park worth Rs 1.2 trillion (accounting for nearly 66% of the total investments announced in the state).

In terms of investment completions, Rajasthan emerged as the leading state, up from sixth in the year-ago period. Investment completions in the state were supported by the commissioning of a Rs 795 billion petroleum refinery-cum-petrochemical project in July 2026 by the central government. This project accounted for 85% of the total investment completions within the state. Rajasthan was followed by Uttar Pradesh and Maharashtra, with shares of nearly 18% and 10%, respectively, of the total investment projects completed (Refer to Table 4). The largest project completed in Uttar Pradesh was the Coal-Based Supercritical Thermal Power Project (accounting for nearly 24.5% of project completions in the state). Other major projects in the state were focused on road transport infrastructure services.

Table 3: State-Wise Investment Projects Announced

	H1 FY27		
	Rs Billion	% Share in Total Capex	Growth (% Y-o-Y)
Maharashtra	12,501	41.1	218.5
Odisha	4,225	13.9	103.7
Andhra Pradesh	3,328	11.0	12.7
West Bengal	1,765	5.8	340.3
Telangana	1,369	4.5	116.7
Tamil Nadu	1,296	4.3	6.2
Bihar	1,247	4.1	376.0
Madhya Pradesh	664	2.2	-35.0
Uttar Pradesh	639	2.1	-33.6
Haryana	526	1.7	-19.8

Source: CMIE, CareEdge; Note: Data extracted on 22nd November 2026

Table 4: State-Wise Investment Projects Completed

	H1 FY27		
	Rs Billion	% Share in Total Capex	% Growth (% Y-o-Y)
Rajasthan	934	18.7	215.2
Uttar Pradesh	890	17.8	117.2
Maharashtra	511	10.2	-22.4
Gujarat	290	5.8	-23.7
Odisha	218	4.4	161.1
Andhra Pradesh	213	4.3	5.1
Bihar	176	3.5	-28.1
Karnataka	176	3.5	-29.6
Haryana	139	2.8	148.6
Tamil Nadu	139	2.8	-41.8

Source: CMIE, CareEdge; Note: Data extracted on 22nd November 2026

V. Economic Indicators Point Towards a Positive Investment Outlook

We analysed several other investment-related economic indicators that also point to a positive outlook for overall investment activity in the economy. Growth in gross fixed capital formation (GFCF) accelerated to 12% in Q1 FY27, logging double-digit growth for two consecutive quarters. India's core sector output (also referred to as the infrastructure industries index) logged an encouraging growth of 6.4% in Q2 FY27, up from 3.9% in the previous quarter. Imports of capital goods witnessed an upbeat growth of around 26% for the second quarter in a row in Q2 FY27. Core sector growth and the capital goods import scenario likely reflect encouraging activity in infrastructure-intensive sectors and healthy domestic demand for capital goods. Furthermore, FY27 started on a positive note, with seasonally adjusted capacity utilisation rising to 76.3% in Q1 from 75.2% in the previous quarter. Overall, these indicators are reflective of a favourable outlook for investment activity in the economy.

Table 5: Investment-Related Indicators

	Unit	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26	Q3 FY26	Q4 FY26	Q1 FY27	Q2 FY27
IIP – Infrastructure/ Construction Goods	Y-o-Y %	8.0	4.1	7.0	8.1	6.1	10.1	9.8	9.3	7.2	7.7
Core Sector	Y-o-Y %	6.5	2.3	3.9	4.5	1.0	4.2	3.3	3.8	3.9	6.4
Gross Fixed Capital Formation - Constant Prices	Y-o-Y %	9.7	8.9	6.9	7.6	5.8	7.2	8.3	10.5	12.0	
Capex – Major States	Y-o-Y %	-20.5	-1.1	8.4	20.5	31.1	3.7	18.1	-1.9	6.8	14.9
Capex – Central Government	Y-o-Y %	-35.0	10.3	47.7	33.4	52.0	30.7	-23.4	-23.3	23.7	2.8
Capital Goods Imports	Y-o-Y %	10.0	11.6	5.8	9.8	14.3	8.5	12.7	11.0	25.7	26.3
Seasonally Adjusted Capacity Utilisation	%	75.7	74.7	75.3	75.5	75.8	74.8	75.5	75.2	76.3	

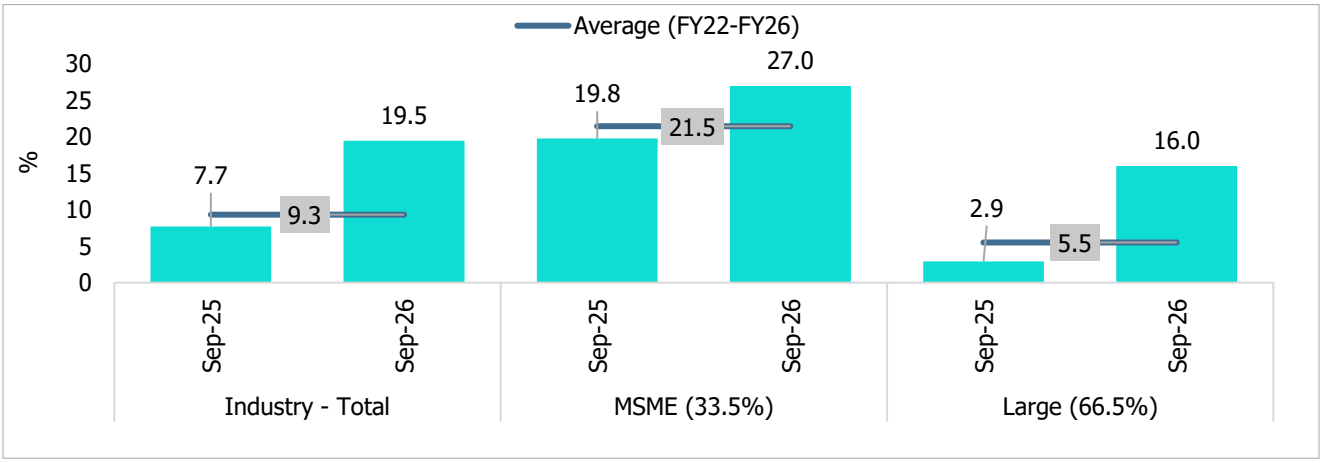
Source: CMIE, CareEdge

VI. Sources of Financing

A. Bank Credit Offtake

Against a backdrop of rising yields on corporate bonds, bank credit has emerged as a key growth driver of financing within industry across size-wise segments. Growth in industrial credit offtake by Micro, Small and Medium Enterprises (MSMEs) further improved from 19.8% y-o-y as at the end of H1 FY26 to 27% at the end of H1 FY27 (Refer to Exhibit 14). More importantly, large industries, which account for 66.5% of total industrial credit, are showing a higher appetite for credit. Credit growth to large industry has risen from 2.9% in September 2025 to 16% in September 2026 and is significantly above the five-year average growth of 5.5%.

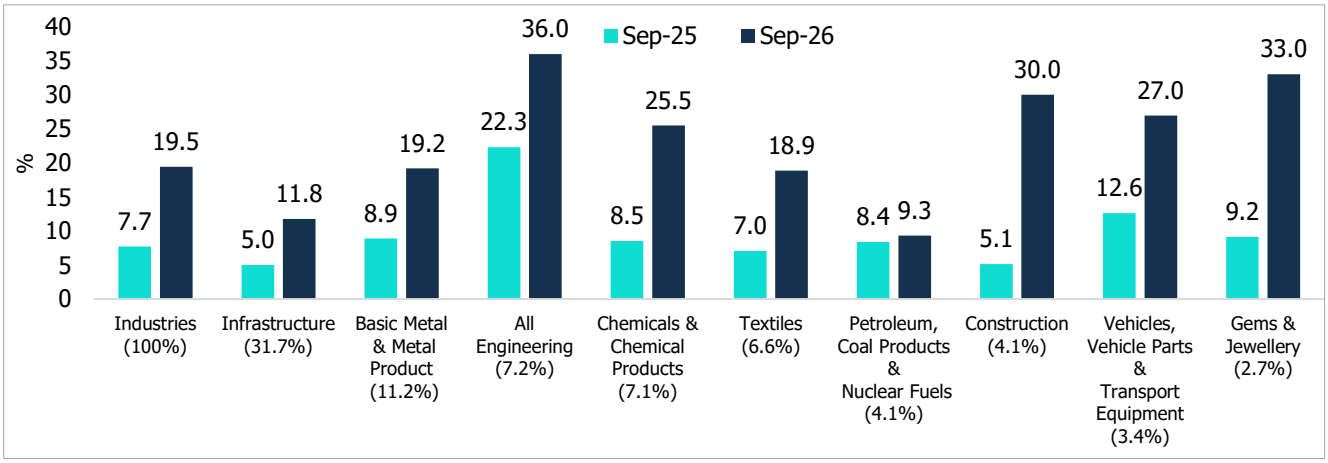
Exhibit 14: Overview of Industrial Bank Credit Growth



Source: RBI, CMIE, CareEdge; Note: Figures in brackets represent share in total credit to industry.

Within industries, credit disbursal grew in double digits for 16 industries in September 2026, compared to 7 industries in September 2025, likely indicating that the capex cycle is turning broad-based (Refer to Exhibit 15). Among the key industries, infrastructure, which accounts for 31.7% of total industrial credit, saw credit growth rise from 5% in Sep-2025 to 11.8% in Sep-2026. Credit growth to basic metal & metal product industries (11.2% share) more than doubled from 8.9% to 19.2% over this period.

Exhibit 15: Industrial Bank Credit Disbursements - Major Industries

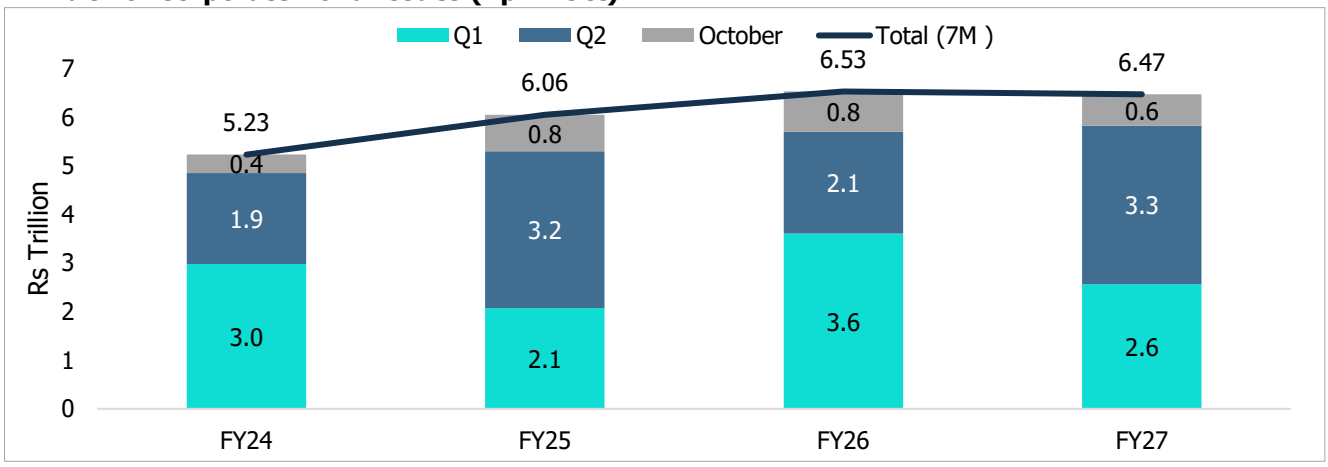


Source: RBI, CMIE, CareEdge; Figures in brackets represent percentage share in total industrial bank credit

B. Corporate Bond Issuances

Corporate bond issuances declined marginally by 1% y-o-y in Apr–Oct FY27 (7M FY27) to Rs 6.47 trillion, even though issuances surged sharply in Q2 FY27 as corporates tried to lock in lower interest rates ahead of the RBI's expected rate-hike cycle. With the yields likely to rise in the near term, corporate bond issuances may remain feeble, even as bank credit continues to grow as a preferred source of funding.

Exhibit 16: Corporate Bond Issues (Apr – Oct)

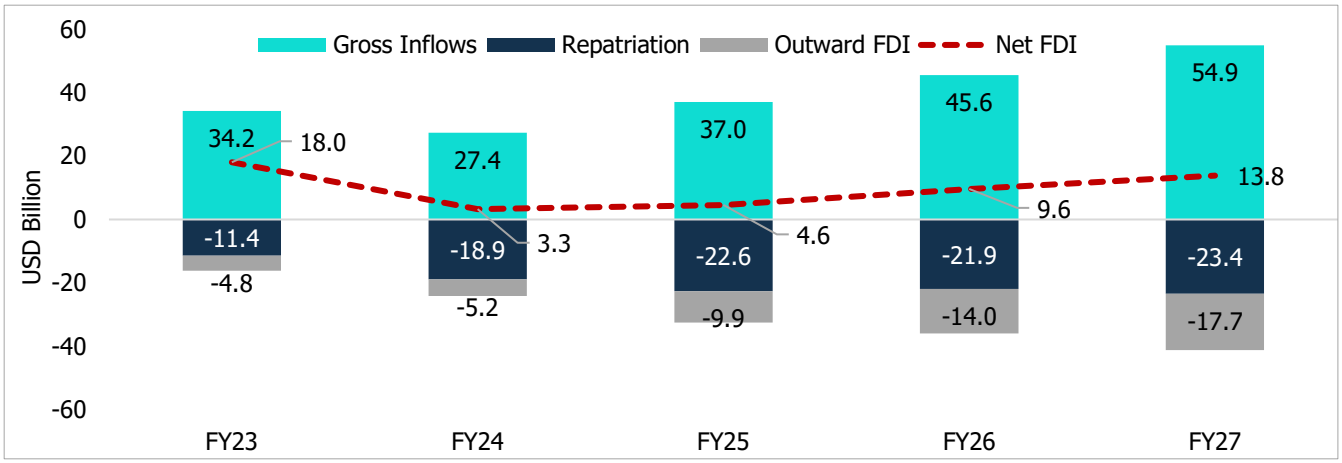


Source: Prime Database, CareEdge

C. External Sources

In terms of external financing, India's attractiveness as an investment destination has led to gross FDI inflows rising 20.6% y-o-y to USD 54.9 billion in Apr–Aug FY27 (Refer to Exhibit 17). Repatriation over this period totalled USD 23.4 billion, while outward FDI totalled USD 17.7 billion. As a result, net FDI was USD 13.8 billion in Apr-Aug FY27, up 43% (y-o-y). Gross inflows are expected to remain healthy in FY27 even as outward FDI partially weighs on net inflows.

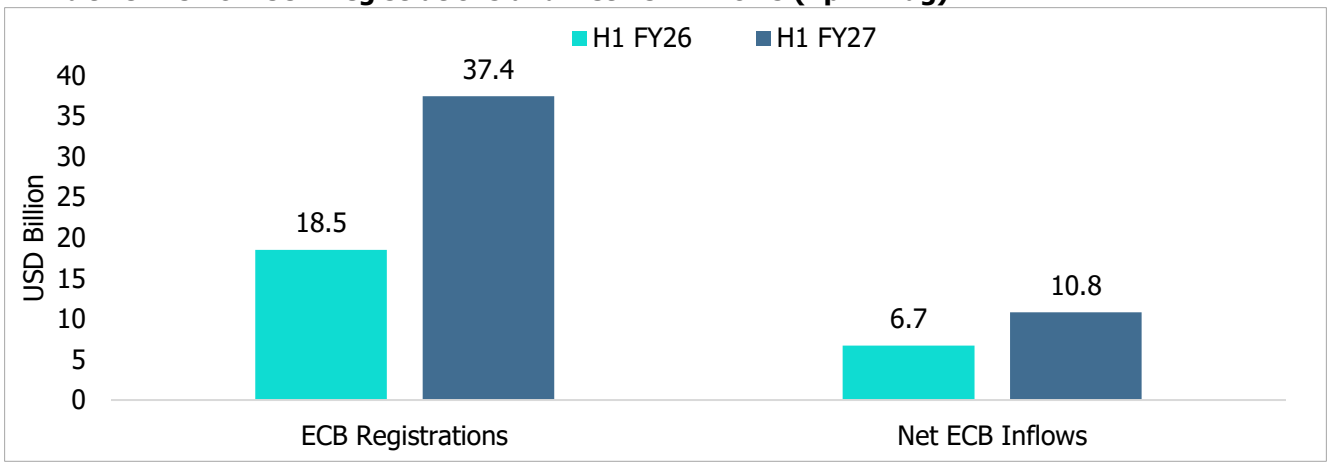
Exhibit 17: Cumulative FDI Flows – Apr – Aug Period



Source: RBI, CMIE, CareEdge

Among other sources of financing, both registrations of external commercial borrowings (ECBs) & foreign currency convertible borrowings (FCCBs), and ECB inflows, have risen, though disproportionately. ECB & FCCB registrations rose 102% y-o-y to USD 37.4 billion in Apr-Aug FY27, while net ECB inflows rose 61.2% to 10.8 billion (Refer to Exhibit 18). While the actual inflows may reflect the effect of public sector units (PSUs) availing the RBI's concessional swap window, the sharp uptick in registrations may be more due to the funding pipeline being built by corporates.

Exhibit 18: ECB & FCCB Registrations and Net ECB Inflows (Apr – Aug)



Source: RBI, CMIE, CareEdge

Conclusion

The investment scenario so far in the fiscal year has shown signs of improvement. While public capex has remained upbeat, private investment is also showing optimism. Central government capex has stayed upbeat, logging double-digit growth, supported by continued infrastructure focus on roads and railways. State government capex has also recorded healthy growth, led by Gujarat and Maharashtra. Meanwhile, CPSEs have maintained strong capex momentum in H1 and are likely to meet, or potentially marginally exceed, their FY27 capex targets.

Private-sector investment activity has also picked up. Capex in FY26 was led by sectors such as power, oil & gas, automobile & ancillaries, iron & steel and non-ferrous metals. Furthermore, data centres, electric vehicles, renewable energy, semiconductors, etc., are also witnessing healthy capex momentum. We are seeing strong interest from foreign investors in these sectors. Order book trends for a representative sample of capital goods and infrastructure companies, a key leading indicator of future investment activity, point to a favourable capex pipeline. Investment Projects announced and completed also point towards optimism. While investment completions in H1 FY27 have been higher than a year ago, investment announcements have risen sharply, reflecting encouraging investment intentions. Furthermore, several other indicators in the economy, such as core sector growth, capacity utilisation levels, and capital goods imports, also point to encouraging momentum. On the financing front, domestic funding patterns indicate a gradual shift from corporate bond financing to bank credit. Bank credit offtake to both MSMEs and large industries has recorded credit growth above their respective five-year averages. External financing conditions have also remained supportive, with gross FDI inflows into India maintaining healthy momentum.

Globally, geopolitical uncertainties, volatile commodity prices and tightening monetary policy conditions are the key headwinds. Domestically, the implications of rising inflationary pressures, concerns over the demand outlook amid a weak monsoon, and higher interest rates on investment activity remain key to monitor. Even with these challenges, the capex outlook remains favourable, supported by the government's infrastructure push, encouraging order books in key sectors, and a pick-up in private-sector investment. The recent moderation in crude oil prices could further push up investment sentiment and capex outlook going ahead.

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