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RBI Working Paper No. 05/2021 - Reassessing Investment Dynamics – Newer Insights into Leverage and Investment of the Indian Corporate Sector

The Reserve Bank of India today placed on its website a Working Paper titled [“Reassessing Investment Dynamics – Newer Insights into Leverage and Investment of the Indian Corporate Sector”](#) under the Reserve Bank of India Working Paper Series*. The Paper is authored by Deba Prasad Rath and Sujeesh Kumar.

Given the criticality of investment in achieving durable growth in the context of ongoing subdued investment, globally as well as in India, this paper revisits investment dynamics in India from the standpoint of the ‘augmented accelerator’ hypothesis and examines whether a combination of macro and financial factors explains better the investment trends in the Indian economy.

The key findings emanating from the study are as follows:

- i. Based on the annual account data of non-government non-financial companies for the period 1980-81 to 2018-19, it is found that financial variables have a greater role in determining the investment dynamics of the Indian corporate sector;
- ii. A model-driven estimate of a threshold for Indian corporate leverage - estimated at around 60 per cent for debt to equity ratio and 28 per cent for debt to asset ratio, beyond which corporate leverage drags growth. With current readings at 48 per cent and 19 per cent respectively for debt to equity and debt to asset ratios, these indicate a space for further corporate borrowing which will lead to higher investment and growth;
- iii. Cash holdings of the companies have a negative impact on fixed investment, implying cash holdings not to be realising into fixed assets; and

* The Reserve Bank of India (RBI) introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the RBI and at times also those of external co-authors when the research is jointly undertaken. They are disseminated to elicit comments and further debate. The views expressed in these papers are those of the authors and not necessarily those of the institution(s) to which they belong. Comments and observations may please be forwarded to the authors. Citation and use of such papers should take into account its provisional character.

- iv. The business expectations of the corporates and economic policy uncertainties are seen to have a significant impact on India's investment process.

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