Indian Economy in 2018

Contact:

Contact
91-22-6754 3489

Authors
Economics Team
Industry Insights team

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
91-22-6754 3515

The year gone by has been quite momentous in all respects. While on the face of it, the economy looked good with revival in growth, there were several forces which acted as headwinds. Volatile oil prices and exchange rates combined with conflicting signals from inflation where farmers were stressed on account of low prices and core inflation remained intransigent affected decisions of the MPC. Industries had varied performance mainly due to differing effects of overall growth as well as the effects of GST in 2017 which skewed numbers and contributed to the 'base effect' argument when interpreting economic numbers.

We present below an overview of developments which took place both in terms of policies as well as economic numbers.

GDP growth

The Indian economy appears to be on the upward path in FY19 with GDP growth poised to be around 7.4%. The performance in the first six months has been satisfactory at 7.6% compared with 6.0% last year. Admittedly the higher growth was on top of a lower base rate which was driven by the effects of the GST implementation where companies had to adjust their stocks. The growth rates in the first two quarters were 8.2% and 7.1% respectively.

Agriculture

With the kharif output now being harvested one may expect some momentum here. Based on GVA, growth in the first six months was 4.6% as against 2.8% last year. Foodgrains production is to be higher at 141.6 mn tonnes as against 134.67 mn tonnes for kharif last year. Cotton output would be lower while sugarcane and oilseeds are expected to be higher for this season compared with last year.

Industrial growth

Aided by a favourable base effect as well as some momentum in both consumer goods and capital goods, IIP growth for the first 7 months is quite satisfactory at 5.6% compared with 2.5% last year. Growth of 8.7% in capital goods, 9.4% in durable goods has helped manufacturing move up by 5.7% so far this year.

In terms of the core sector or infrastructure industries growth has been impressive for electricity, cement and coal during this period. Positive spending by the government has helped to maintain this growth rate.

The capacity utilization rate, which is a good indicator of the spare capacity in industry which in turn gives a signal of future investment, had increase in Q3 and Q4 of FY18 at 74.1% and 75.2% respectively but decline to 73.8% in Q1-FY19. It needs to be observed if this rate will improve in the next few quarters to provide this confidence.

Which industries did well and which did not quite match up?

Industries where sales/production growth better so far this year

	FY18	FY19
2 and 3 wheelers	10.4%	13.1%
Commercial Vehicles	5.7%	30.2%
Passenger vehicles	6.0%	3.0%
Tractors	14.5%	16.3%
Power	4.1%	4.9%
Coal	1.5%	8.8%
Lead	24.7%	26.7%
Finished steel	3.5%	5.9%
Manmade Fibres	-3.0%	7.5%
Cotton yarn	-0.9%	5.1%
Cement	-1.5%	15.6%
Renewable Power	17.9%	28.5%
Major Port	3.3%	5.3%
Airports	15.1%	15.8%
Media and Entertainment	4.6%	29.6%
IT- software	4.4%	20.5%
Ceramic Tiles/ Sanitaryware	-3.6%	0.7%
Sugar	-20.2%	61.7%

Industries where sales/production growth lower so far this year

	FY18	FY19
Edible Oils	15.5%	5.1%
Copper	10.6%	-47.7%
Zinc	35.1%	-12.3%
Natural Gas	4.4%	-0.4%
Gems and Jewellery	-5.5%	-6.8%
Crude Oil	-0.2%	-3.6%
Cotton Bales	7.2%	-2.4%
Fertilizers	-1.3%	-0.3%
ITeS/BPO	24%	-24%
Primary Aluminium	18.6%	14.8%
Air-cargo	14.1%	7.9%

Inflation

After being driven upwards mainly by crude oil prices, the inflation indices are now headed downwards. The CPI inflation was at 2.3% in November as against 4.4% in March 2018. This has been caused mainly by declining food prices, especially vegetables, sugar and pulses. The food price index had declined by 2.6% in November. The non-food components continue to be high with housing, fuel and miscellaneous categories of goods and services. This will be one factor that the RBI and MPC would be following closely.

WPI inflation is higher than the CPI inflation at 4.6% in November. This has been caused by two factors. First the fuel component has been high at 16.3% due to volatility in the oil prices. Also with the crude oil price coming down, a similar decrease has not been witnessed in the fuel products which have kept this number high in November. Second, manufactured goods which have a weight of around 64% are at above 4% level. This has been good for companies which have managed to register better results this year. However, as it is part of the core inflation concept, it shows some level of rigidity in the system too.

Corporate performance

CARE Ratings' studies for Q1 and Q2 show a better performance of companies in terms of sales and net profit growth. Sales increased by 12.8% and 21.2% respectively in Q1 and Q2 against 12.8% and 7.5% last year. In case of net profit growth was 8.6% and 15.6% respectively against negative growth or decline last year in both the quarters. This improvement should be seen against the background of the GST last year which involved major destocking in Q1 and re-building of stocks subsequently.

Capital market: Equity

During the first 8 months of the year public issues were lower at Rs 12,367 cr as against Rs 61,737 cr. Hence it was not a buoyant time for IPOs. Rights issues were also lower at Rs 978 crore as against Rs 3671 crore last year.

The secondary market

The Sensex has been volatile during the year and moved from 32,968 in March to a range of 36,000 towards the end of December.

Capital markets: debt

Corporate debt issuances were subdued this year so far. Part of the reason was fewer investment projects being taken up while the NBFC liquidity issue in September-October also witnessed a reduction in issuance of bonds. Overall private placements between April and November were Rs 2.88 lkh crore as against Rs 4.21 lkh crore last year. Public issues were higher at Rs 28,337 crore as against Rs 3,895 crore last year.

Fiscal position of central government

Data available till November 2018 suggests that fiscal deficit is already 114% of budgeted amount of Rs 6.24 lkh crore for the full year. However, the government appears to be confident that the 3.3% mark will not be breached. A lot will depend on how the tax revenue flows in the coming months. Revenue slippages are expected on GST but the possibility of getting higher non tax revenue cannot be ruled out. Disinvestment target could be exceeded given the progress so far with the ETF route also chipping in. Besides, certain expenditures can be deferred in terms of payments to the next year to meet the deficit target. It is also expected that the RBI may give an interim surplus this year.

Gross government borrowing was Rs 4.03 lkh crore as of December 2018. The gross borrowing programme for the year was reduced to Rs 5.35 lkh crore from Rs 6.05 lkh crore. Higher inflows of small savings have been one of the reasons for lowering the gross market borrowing programme.

Banking

Banking indicators are more vibrant this year so far. As of December 7th bank deposits stood at Rs 118.8 lkh cr and bank credit at Rs 92.0 lkh crore. Bank deposits grew by 4.0% over 0.7% last year between April 1 and Dec 7. In case of bank credit it was 6.7% as against 2.0%. Clearly growth in credit has been faster which has partly contributed to the liquidity challenge during the year so far.

Sectoral data which is available till October shows that this growth in credit has been driven more by retail (6.8% growth lower March compared with 7.7% last year), and services (7.7% as against -3.8%). Growth in credit to industry was virtually flat compared with -3.0% last year. Agriculture registered growth of 2.9% (-1.1%).

Bank NPAs

This has been a challenge in the present year so far but it does appear that the worst may be over. The Gross NPA ratio for a set of 40 banks increased from 10.1% in Sept 2017 to a high of 11.5% in March 2018. It has since then reduced marginally to 11.4% in June and 10.9% in September 2018.

The Government has also moved a proposal in Parliament for enhanced bank recapitalization outlay from Rs. 65,000 crore to Rs. 1.06 lkh crore in the current financial year to propel economic growth. This would enable infusion of over Rs. 83,000 crore in the coming few months in Public Sector Banks (PSBs).

Monetary policy and interest rates

The RBI has increased the repo rate twice by 25 bps each time to bring the anchor rate to 6.5%. In response to these changes

- Base rate has increased from 8.65-9.45% to 8.95-9.45%
- MCLR from 7.8-7.95% to 8.15-8.55%
- 10 year GSec from 7.42% to 7.25% (as of Dec 27th)

With CPI inflation coming in at progressively lower rates it may be expected that the RBI will change its stance from ‘calibrated tightening’ to ‘normal’ in the next policy in February 2019 and probably consider lowering rates in April provided inflation holds its level at around 4%.

Foreign exchange situation

The forex situation is stable though lower than in March when it was $ 424.5 bn. It is presently at $ 393 bn. The current account deficit at $ 35 bn is around 2.7% of GDP for the first half of the year which is deterioration from 1.8% last year. This has been caused mainly by the higher oil prices up to November. With these prices cooling off it may be expected that the CAD will improve and could gain by 0.5% in case the status quo remains. FDI has been brisk at $ 17.7 bn while FPI is still negative at $ 9.8 bn for the first half of the year for which the balance of payments accounts is available.

The rupee has been volatile and started the year in April at Rs 65/$. It crossed the Rs 70/$ mark in August and reached its nadir at Rs 74.38 on 11th October and has recovered post November to be around Rs 70/$ mark by December 27th.

Major policy decisions taken

- *Additional capitalization of PSBs for a total now of Rs 1.06 lkh crore this year.*
- *Continuous infusion of liquidity through the OMO route. Rs 1.86 lkh crore infused so far till Dec 27.*
- *Revised framework for resolution of stressed assets introduced.*
- *LCR of banks made more flexible for enabling lending to NBFCs*
- *Norms for ECBs eased to encourage such borrowings*
- *Duty rates increased on certain goods to control growth in imports*
- *States asked to lower VAT on petrol and diesel when crude oil price peaked at above $ 86/barrel*
- *GST rates lowered for some goods from the 28% bracket. Cement however still in this group.*
- *Announced MSPs for kharif and rabi crop higher this year compared with 2017 – however, fail to deliver in most markets due to absence of procurement.*

- *Announcement of farm loan waivers by some states*
- *Announcement of reduction in Statutory Liquidity Ratio (SLR) by 25 bps each quarter till it reaches 18%. This is to be implemented from 1st January,2018 as announced in the 5th MPC meeting*
- *Framework for Large Corporate Borrowers announced by SEBI to be implemented from 1 April, 2019. Large corporate borrowers are those having long term borrowings more than Rs. 100 crs (excluding foreign loans and inter-corporate deposits). These borrowers have to raise 25% of their long term funding requirement via corporate bonds.*
- *Increase in FPI limit for GSecs and Corp Bonds*
- *Partial Credit Enhancement for bond issues by NBFC and HFCs and increased ceiling for lending to a single NBFC*
- *Lower gross borrowing by central government. No change in net borrowing.*
- *Committee set up to review RBI reserves post the resignation of the Governor Dr Urjit Patel*

Sector specific policies

Automobiles

- *Load carrying capacity of heavy vehicles (including trucks) raised by 20-25%*

Oil and Gas

- *The Union Cabinet approved the establishment of additional 6.5 Million Metric Tonne (MMT) (which is approximately equivalent to 48 million barrels) Strategic Petroleum Reserve (SPR) facilities.*
- *Upstream companies permitted to explore unconventional hydrocarbons such as shale oil/gas, coal bed methane (CBM) in the existing Production Sharing Contracts (PSCs).*

Fertilizers

- *Margins to be paid to urea dealers increased by 97% to to ₹354/MT.*

Sugar

- *Financial assistance of Rs.5.5 per quintal for the sugarcane crushed during sugar year October 2017-September 2018 announced*
- *Package of Rs.7,000 crore to increase the capacity of existing distilleries, to install new distilleries and to take care of expenditure required for 3 million tonnes buffer stock of sugar.*
- *Package of Rs.5,500 crore to enable export of 5 million tonnes of sugar and to approve financial assistance of Rs.13.88 per quintal of cane crushed for sugar season 2018-19*

Telecom

- *National Digital Communications Policy 2018 to connect, propel and secure India.*
-

Healthcare services

- *The Ayushman Bharat Scheme was launched towards end of September 2018. Under this scheme, over 10 crore poor and vulnerable families (covering approximately 50 crore beneficiaries) will be covered and a coverage up to Rs.5 lakh per year per family for secondary and tertiary care hospitalization will be provided.*

Paper

- *The Government has released the draft National Forest Policy in March 2018 for comments. The draft policy amongst other proposals has proposed agro forestry and access to degraded land on a public private participation model fulfilling a long standing paper industry demand.*

Gems and jewelry

- *The government is expected to release an integrated gold policy to promote the growth of the gems & jewellery industry and the growth of exports of jewellery.*

Major factors that moved the markets

- *Declining food prices helped inflation to cool but at the expense of farmer income*
- *NBFC crisis resulted in a liquidity challenge for the system which was addressed by the RBI*
- *Volatile crude prices upset both trade balance and currency. Sanctions on trading with Iran were a major landmark.*
- *US trade war affected global flow of goods and services*
- *To begin with irregularities in the credit flow to the diamonds sector created an upheaval, which since had normalized.*
- *Federal Reserve increasing interest rates and hinting at more hikes drove FPIs away from emerging markets.*
- *ECB signals end of QE which affects global flow of funds.*
- *Change in guard at the RBI. Committees set up to address issues such as dealing with surplus reserves of central bank etc.*

CORPORATE OFFICE:
CARE RATINGS LIMITED (Formerly known as CREDIT ANALYSIS & RESEARCH LIMITED)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022. CIN: L67190MH1993PLC071691
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457
E-mail: care@careratings.com I Website: www.careratings.com

Follow us on /company/CARE Ratings
/company/CARE Ratings