CARE Ratings
Professional Risk Opinion

Economics

July 16, 2015

CARE Ratings Survey on the Indian Economy: FY16

Expectations ran high for the Indian economy since early 2014 on hopes that the domestic economy would be recharged and investments would pick-up with the change in leadership at the center. Although the new government has taken positive steps in boosting the economy and investments, the progress and impact of the same has been limited in terms of economic numbers. Domestic demand remains subdued, industrial growth has been low in the first 2 months of the year and the slowdown in investment in the last two years has not yet been reversed.

The economy has benefited more from the extraneous factors viz. the softening of commodity prices i.e. crude oil, metals and agricultural commodities, providing much needed respite from persistent high inflation. The country's current account deficit has improved as a result of the decline in crude oil prices which lowered the country's import bill. Also low industrial growth was accompanied by low demand for non-oil imports and gold. Lower oil prices has also helped the fiscal situation as the constraints imposed by the subsidy bill on the overall ability to balance the budget have eased substantially when combined with the rationalization moves taken on this front.

Optimism about the Indian economy nevertheless persists, as evidenced by the inflow of foreign funds into the capital markets. At the domestic level prospects and expectations for the economy are viewed as being bright with improvements on the anvil.

In continuation with our regular monitoring of the economy and the progress made by various sectors, an insight into the views and expectations of the various market players was deemed pertinent. CARE's Annual Survey on the Economy attempts to capture the market sentiments and expectations on the Indian economy and the investment climate therein.

Survey Outline

CARE's Survey on the Indian Economy drew participation from a cross-section of sectors with the respondents being senior level executives from manufacturing including infrastructure, services and financial sectors. The Survey respondents totaled 111. The respondents were asked about their expectations on the ***general economy*** and the overall ***investment climate***. In addition, ***company specific*** questions pertaining to their respective company performance, investments plans and funding options were sought. The Survey involved seeking opinions on the factors impinging investments, the announcements and policies that could revive investments and forecast for the economy and industry.

Key findings

The Survey has provided us with interesting finding, some of which are contrary to perceptions.

- India's economic growth is likely to improve in the current fiscal with the majority pegging GDP growth between 7.5-7.9%.
- Moderation in inflation expectations (when compared with last year's 5.9%), but upside pressure to price increases exist.
- The exchange rate ($/Rs) is expected to weaken (from current levels of Rs.63.4) and is expected to be in the range of Rs. 64-65.9/$ for the remainder of the fiscal.
- Expectations of a rate cut by the RBI are widespread with a majority expecting a 50 bps cut before the end of this fiscal.
- Overall corporate performance (net profits and sales growth) is expected to record only modest improvement (less than 10%).
- The stress on the banking sector is likely to prevail with NPA's expected to rise further in FY16.
- Capital market sentiments are to remain elevated with the benchmark SENSEX expected to be at 27,000- 30,000 by the end of FY16.
- The overall investment climate of the country is widely expected to improve this fiscal.
- Weakness in demand is a persistent issue affecting investments along with policy constraints and land/power availability.
- Government initiatives such as *ease of doing business, clearing of stalled projects, simplification of environmental regulation, coal auctions ,FDI in key segments and foreign policy initiatives* seen as positives for investment revival.
- Subdued expectation of a revival in stalled projects (less than 25%) that have been recently cleared.
- Only half the respondents expect their respective companies to undertake investments in FY16.
- The majority of respondents indicated their intentions to undertake borrowings; and banks continue to be the favored avenue followed by the bond markets.

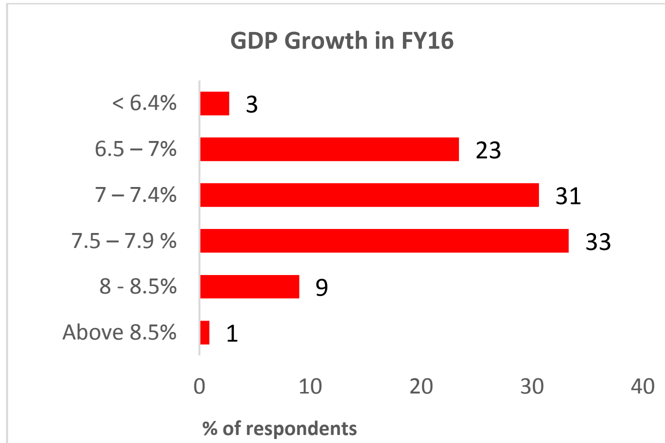
Survey Results

CARE Survey on the Indian Economy is divided into 3 broad sections – *(A) General Economy*, *(B) Investment Climate* and *(C) Company performance and investments.* .

(A) General Economy

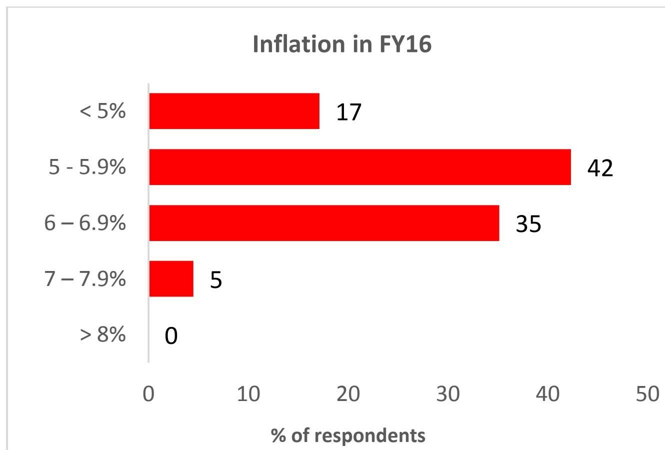
General Optimism about Economic growth

The Survey indicates that an improvement is likely in the Indian economy. Nearly 75% of the respondents expect the domestic economy to grow by over 7% in the current fiscal. 43% of the respondents expect growth to be higher than that of the previous year (7.3%).



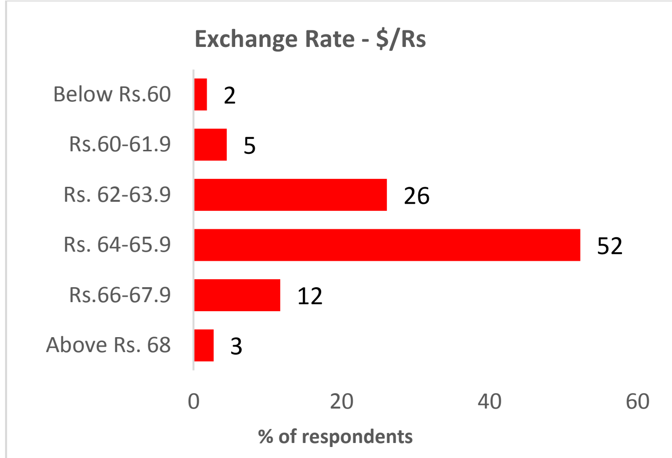
Easing inflation expectations

Although price levels could be pressured owing to domestic as well as global factors viz. sub-normal monsoons in the country and sudden increases in global commodity prices, the general perception appears to be that the increase in price levels would be more less than the increase recorded last fiscal owing to the subdued global commodity prices and domestic conditions. Retail inflation in FY15 came in at 5.9%. The majority of respondents (59%) do not expect inflation in FY16 to surpass 5.9%.



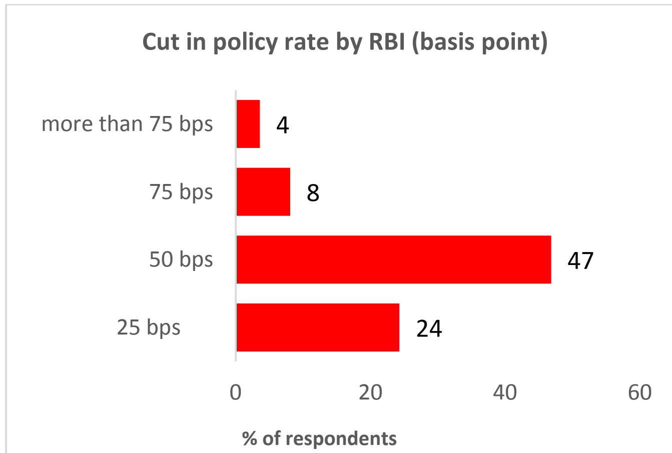
Pressure on the Rupee

The exchange rate is expected to weaken from the current levels of Rs.63.4 (average for the first fortnight of July'15) to be in the range of Rs.64 – 65.9/$. The rupee is vulnerable to external factors, the most significant being the Federal Reserve's policy action on interest rates.



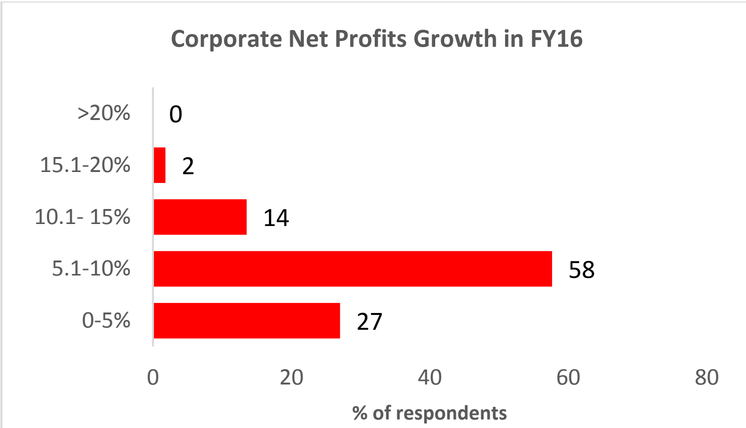
Interest rates to decline

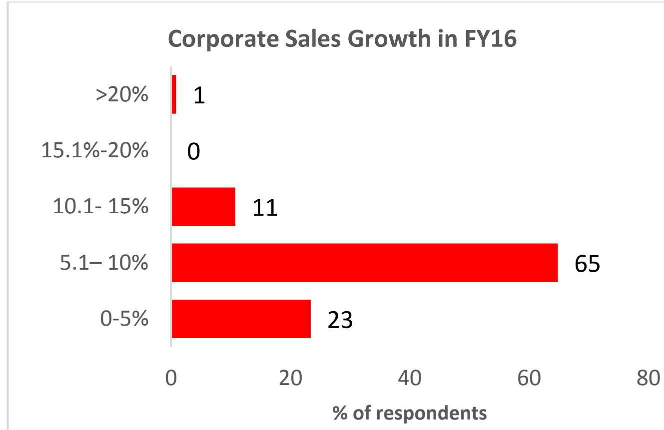
The majority of respondents (83%) foresee a rate cut by the RBI in the coming months. Most expect an additional 50 bps (from the current repo rate of 7.25%) cut to materialize in the remainder of the year with the softening of inflation. 24% expect 25 bps while 12% expect 75 bps or higher rate cut.

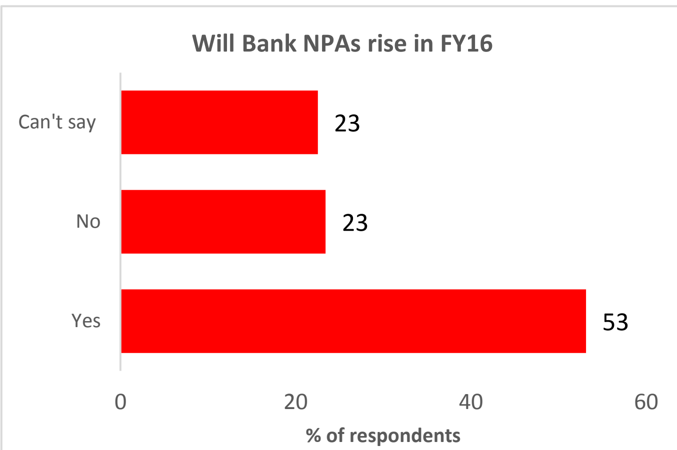


Modest improvements in corporate performance

Although the corporate sector is expected to clock better performance than that in FY15 (CARE's study of 3558 non-financial companies revealed decline in net profit by 1.7% in FY15), the improvement this year is largely projected to be modest with a large section of the respondents (over 80%) expecting both sales growth and net profit growth to be not more than 10%. With the domestic demand yet to pick up and with global demand also being tempered, corporates are unlikely to see a jump in their sales. Corporates can however hope to get continued relief on the expenditure front from the moderation in inflation. This would help their overall performance, albeit to a limited extent.

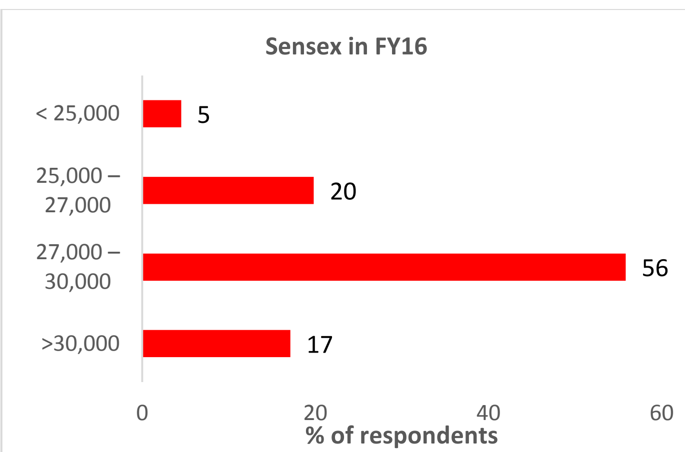






Banks: Further stress anticipated

Banks are unlikely to get a respite from their stressed assets situation. Over half the respondents foresee an increase in the level of bank NPAs in FY16. Banks in the year gone by have been pressured by the deterioration in their asset quality and slowdown in interest income with lower borrowings. This scenario is seen to be carried forward in FY16.



Capital Markets: Upbeat market sentiments

The majority of respondents (nearly 75%) expect the capital markets to see an increase. The benchmark SENSEX is expected to rule over the 27,000 levels this fiscal. Another 17% epect the Sensex to end the year at above 30,000.

(B) Investment Climate

Investment Climate: Favorable impressions

In an encouraging sign, an overwhelming majority (85%) of the respondents expect overall investments in the country to improve in the current fiscal year. Some of the factors that have been inhibiting factors for investments are:

- Subdued market demand,
- availability
- cost of funds,
- policy constraints and
- availability of land and power

The Survey findings reiterate the importance of the ease of doing business, the clearing of stalled projects and FDI for boosting investments.

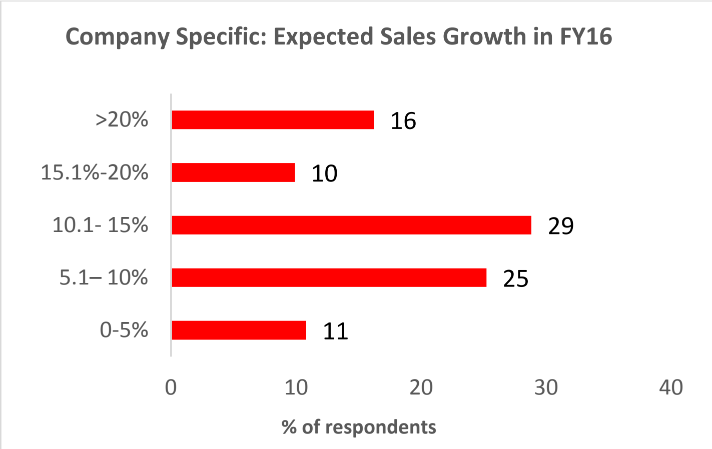
- Over 60% of the respondents find these measures of the government as being helpful in reviving domestic investments.
- The government's foreign policy initiatives are being viewed as steps taken in the right direction. 35% of the respondents feel that this can aid in garnering investments in the country.

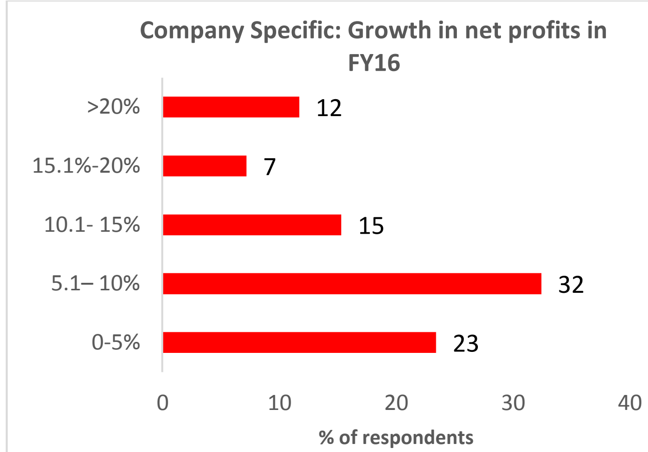
In terms of the revival of stalled projects that have been recently cleared, the expectations are rather conservative. The respondents see only a few (1-25%) of the cleared projects seeing a revival.

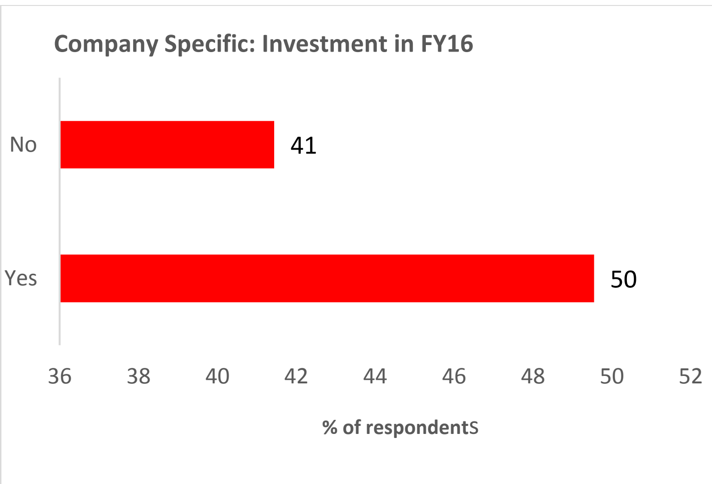
(C) Company performance and Investments

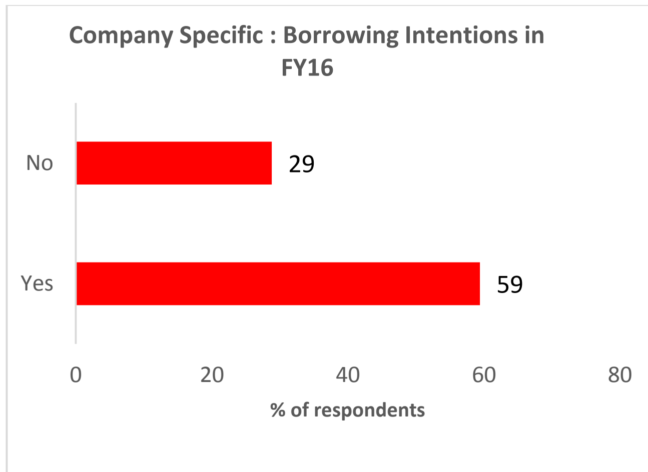
Findings pertaining to the company performance of the Survey participants i.e. for their respective companies indicates that most expect to see only modest improvements in sales growth (65% of 91 respondents foresee their sales not growing by more than 15%) and net profits (71% of the 90 respondents do not expect their net profits to increase by more than 15%).

Most of these companies (50% of 91 respondents) are likely to undertake investments and nearly 60% of them intend to borrow funds during the year. Banks continue to be the preferred source for borrowings for nearly half the respondents, followed by the bond markets (15%). Only 8% of the respondent is likely to tap the ECB markets for their funding requirements.









CARE's Projections

CARE Ratings had at the start of FY16 made its projection for various macro-economic variables. Most of CARE's projections seem to be in line with the majority expectations of this Survey. Given below are some of CARE projections for FY16

- GDP to grow by 7.8% (with a downward bias depending on impact of sub-normal monsoons)
- Retail inflation to be in the range of 5-6%
- RBI to lower repo rate to 7%
- Exchange rate to be in the range of Rs.64-65/$ by the end of the year

Conclusion

The Survey indicates a mixed picture for the Indian economy in FY16. While on the one hand GDP is likely to see favorable growth, inflation expectations are subdued, but the capital markets are to be elevated. Investments too are expected to increase but the exchange rate is unlikely to see sharp depreciation. On the other hand corporate performance is likely to improve only marginally with only a small portion of stalled projects witnessing a revival. The banking sector is likely to be under pressure on the NPA front.

With private investments likely to seen only a marginal pick-up in the near term, the government will have to bear the responsibility of increasing investments and thereby create the critical link for private investments and economic growth. With indications of government spending in road and infrastructure, the investment cycle may be taken as being in the nascent stages of revival. Sustained increase in overall investment is contingent on growth inducing policy reforms.

Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-022-67543489

Kavita Chacko
Economist
kavita.chacko@careratings.com
91-022-61443593