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MAKE IN INDIA

Indian engineering

ECONOMIC UPDATES

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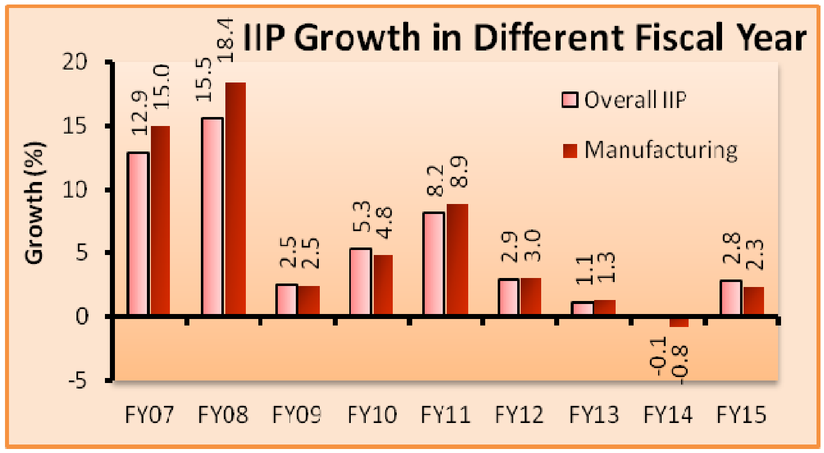
- ***Monitoring Economic Trend – Indian and Global***

Industrial Production

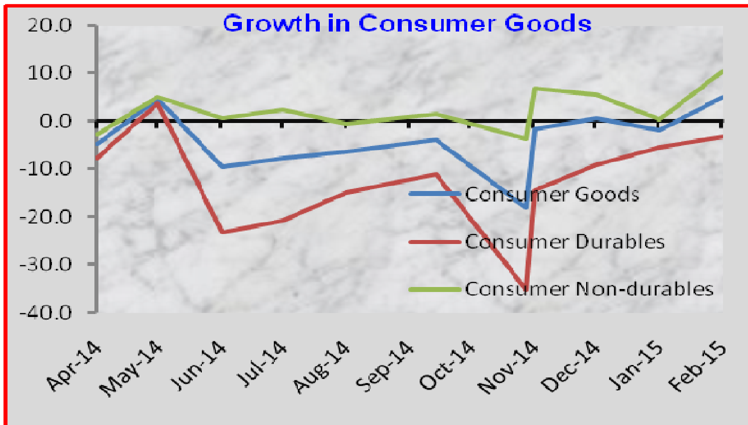
Indian industry came back to growth path in 2014-15 after a contraction in the previous fiscal



The industrial output recorded 2.8% growth during fiscal 2014-15 (FY15) as against 0.1% contraction in the last fiscal. During Mar 2015, industrial production growth turned weaker at 2.1% from around 5% a month ago. The manufacturing sector, which contributes 75% to the industrial output, grew 2.2% in March against a 1.3% contraction in the corresponding month last year. Mining output was up 0.9% in Mar 2015 vs. 0.5% in the same month last fiscal. Electricity however conceded a slower 2% growth in Mar 2015 as against 5.4% in Mar 2014. The IIP and GDP numbers are not strictly comparable as the former measures quantity of production while the latter captures value added.

Use-based classification – Among the use-based components of manufacturing, production of capital goods, an indicator of domestic demand, rose 7.6% in March 2015, marking the fifth successive month of expansion. It maintained a positive growth of 6.2% in FY15 vis-à-vis FY14. Consumer durables, essentially white goods, contracted 4.7%, suggesting fragile consumer sentiment especially in the urban region. Consumer non-durables production was up 1.9% reflecting some demand from rural India.

Cumulative figures indicate industrial recovery in FY15 – The cumulative growth for the entire 2014-15 stood at 2.8% as against a contraction of 0.1% in 2013-14. Mining and manufacturing escaped negative growth of the previous fiscal to witness moderate recovery at 1.4% and 2.3% respectively during FY15 while growth in electricity improved to 8.4% over FY14. Within manufacturing, capital goods and basic goods bounced back in FY15 with decent 6.2% and 6.9% growths respectively from declines of 3.6% and 2.1% during the last fiscal. However, intermediate goods and consumer goods depicted a completely different picture. Consumer goods production worsened with a decline of 3.5% in FY15 as compared to 2.7% during the last fiscal owing to dismal performance of durable goods. Growth of Intermediate goods production nearly halved to 1.6% in FY15 as against 3.1% a year ago.



Source: CSO, Govt. of India

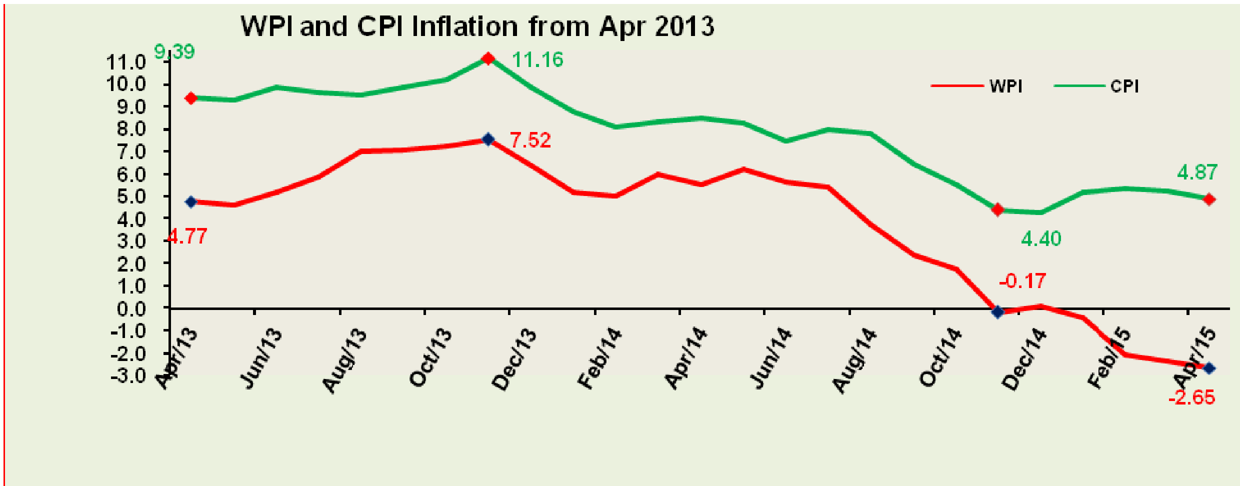
Industry group-wise analysis of engineering products during Mar 2015

Among the ten industry groups (as per the 2-digit NIC -2004) of manufacturing sector that came under engineering segment, three witnessed negative growth during March 2015. But the cumulative performance portrayed a slightly dismal picture as four out of ten industry groups recorded negative growth during FY15. 'Basic metals' led the pack with the highest growth of 12.7% during FY15 followed by Furniture manufacturing with 7.4% growth. Contrastingly 'Radio, TV and communication equipment & apparatus' remained the worst performer with 54.3% decline in production during FY15 followed by 'office, accounting and computer machinery' conceding a decline of 38%.

Outlook for industrial production: Industrial growth on the rise – Manufacturing sector bounced back to growth path in FY15 with signals of further improvement. Easing of inflation on the other hand would provide the necessary elbow room to RBI to continue its monetary softening going forward in 2015 to provide a fillip to growth by encouraging banks to reduce rates. We expect industrial production to do better in the ongoing fiscal.

Inflation

Retail inflation eased to 4.87%, while Wholesale prices contracted by 2.65% in April 2015 – Inflation based on Consumer Price Index (CPI) eased to 4.87% in April from 5.25% in March due to steep reduction in food prices despite fears of a spike following unseasonal rain. Inflation in Rural India declined to 5.4% from 5.7% in March 2015 and that in Urban India declined to 4.4% from 4.8% respectively. This trend in CPI makes some economists opine RBI to ease its monetary policy right away in order to revive the economy's growth program. While on the other hand some suggest a likelihood of a rate cut in the June 2015 review of monetary policy of the RBI. The Consumer Food Price Index (CFPI) for April 2015 stood at 5.11% as against 6.14% in the previous month of March 2015. Headline consumer inflation is well below RBI's 6% target for January 2016.



Source: CSO, Office of the Economic Advisor, Govt. of India

Inflation Outlook: slight uptrend may be seen – Component-wise break up of CPI inflation shows that the downfall in headline number is due to cheaper food prices. Food Article group is the main driver of CPI inflation as it holds nearly 50% weightage in CPI basket. The ensuing monsoon season from Jun to Sep is critical for food prices. Fear of an El Nino weather pattern is maturing this year that may cause draught in some parts of India leading to dearer food prices. Upward risk to inflation cannot be ruled out but broadly it is expected to stay within the comfort level of RBI.

Non-food credit growth in Mar 2015 was far below the level of previous fiscal - Non-food bank credit growth decelerated to 8.6% in Mar 2015 from 14.3% in the same month last year. Credit growth to industry more than halved to 5.6% during Mar 2015 from 13.1% in Mar 2014. Deceleration in credit growth to industry was observed in all major sub-sectors barring construction. Manufacturing conceded a decline in credit disbursal of 0.5% during Mar 2015 as against a sizeable 35.5% growth during the same month last year.

Declining trend of rupee continued in Apr 2015

Indian Rupee weakened for the second consecutive month in Apr 2015 (as per RBI data) due to fear of outflow of dollar from Indian capital market following the imposition of MAT on booked profit of FIIs. Concern on strengthening of dollar in the international market also acted against the rupee as the time for interest rate hike by the US Federal Reserve was approaching. The Indian currency depreciated against other major traded currencies like Euro and British pound during Apr 2015 due to fear of foreign currency outflow.

Performance of Indian Rupee vs. Major Traded Currencies

	USD	GBP	EURO	YEN
Change (%) in Apr 2015	1.58%	5.98%	4.48%	2.73%
Direction	Depreciation	Depreciation	Depreciation	Depreciation

Change (%) in 2015	0.39%	-0.60%	-8.40%	1.13%
Direction	Depreciation	Appreciation	Appreciation	Depreciation
Source: RBI Reference Rates				

Outlook for rupee – We apprehend that the weakening trend of rupee will continue until the govt. remove the imposiiton of MAT on FIIs. Volatility in the indian capital market and possibility of tighter interest rate regime in the US may continue to weigh on rupee. However, recovery of rupee cann't also be ruled out depending on the stance of RBI to intervene in the currency market, trend of commodity price (specially crude price) in the international market and decision of the US Fereral Reserve to defer rate tightening following the recent downturn in the US. Rupee may likely to move within a broader range of 62 – 64 per dollar in the short term.

RBI kept all key policy measures unchanged in its 1st bi-monthly policy meet 2015-16 on 7th Apr 2015 – RBI kept the policy repo rate unchanged at 7.5% in the said policy meet. Consequently, reverse repo rate, bank rate and MSF rate also stood unaltered at 6.5%, 8.5% and 8.5% respectively. CRR was also kept unchnaged at 4%.

Policy stance – RBI in its policy statement said that the effect of the last two rate cuts were not passed on by the commercial banks to the end-users so far. Therefore, RBI would wait for this transmission of policy rates to lending rates before taking further decision on rate cut. Moreover, RBI would also wait for inflation data for the next couple of months to see further clarity on inflationary trend.

Outlook for RBI Policy Review on 2nd June – Retail inflation has come down well below 5% but with marginal upside risk. Manufacturing production showed rising trend in 2014-15 but non-food credit growth still remained poor. At this juncture, **we think RBI may opt for a 25 bps cut in the policy repo rate to 7.25%. Monetary transmission of the policy rate cut by bank would lead to lower borrowing cost for businesses that in turn may enhance production.**

GLOBAL SCENARIO

US Economy is yet to escape slowdown but hope remains – Real GDP growth in the largest economy of the world was recorded at a feeble 0.2% annualized rate during the first quarter of 2015 driven by harsh winter weather, a strong dollar and a slowdown in shipping due to labour dispute in West Coast ports. The underlying trend of broader economy also remained weak as industrial production for the country fell for the fifth straight month in April while consumer confidence dropped to a seven-month low in early May 2015. The US in 2014 bounced back after a slowdown in the first quarter but the situation did not look so dismal last year.

Euro zone economy picked up slightly but Germany underperformed – The 19-nation Euro zone economy grew by a mere 0.4% quarter-on-quarter and 1% year-on-year during the first quarter of 2015. The growth was mainly attributed to strengthening of domestic demand following lower food and energy prices. The richest economy of the Euro zone, Germany saw only 0.3% rise in GDP during the quarter that pulled down the overall growth. The export oriented nation suffered from a slowdown in global trade. However, growth in Euro zone witnessed a mild but steady acceleration over the growth rates of 2014.

Source: RBI, Govt. of India Websites, ICRA, Newspapers & Periodicals