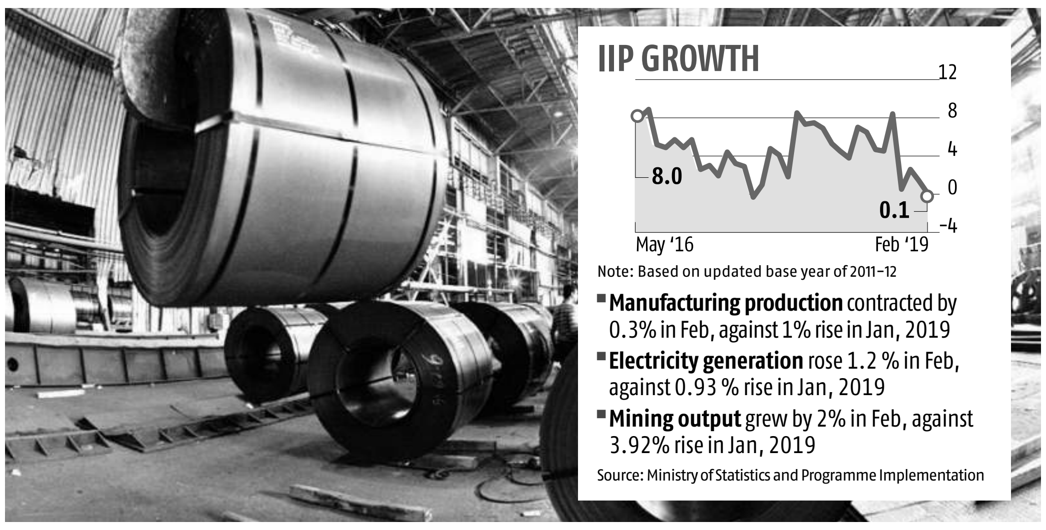
Feb industrial growth falls to 20-month low of 0.1%

Contraction in capital goods and consumer durables worsened

SUBHAYAN CHAKRABORTY
New Delhi, 12 April



A contraction in manufacturing output, especially in the sensitive capital and consumer goods segment, pulled down industrial growth to a 20-month low of just 0.1 per cent in February.

The bottom crawling growth rate follows a 1.43 per cent growth in the previous month of January. The index of industrial production (IIP) has witnessed low growth since November, 2018, and is expected to remain muted owing to weak exports, rural distress, credit constraints and uncertainty over the election outcome, according to economists.

In the April-February period of the current financial year, industrial output grew at 4 per cent, as against 4.3 per cent in the same period of the previous financial year.

The manufacturing segment, which constitutes the bulk of the index of industrial production (IIP) at 77.6 per cent, contracted by 0.3 per cent in February against an equally small rise of 0.93 per cent in January. Before, this, the December 2018 manufacturing number of 2.95 per cent. The numbers show continued volatility in the IIP, despite change in the index last year.

Most of all, the capital goods segment, which connotes investments, saw output growth turning to negative with an 8.8 per cent contraction, as compared to a 3.42 per cent contraction in the previous month.

Driven by machinery and heavy transport, capital goods production had been on a solid upswing till October. "The capital goods sector, which showed an average growth of 8.9 per cent in April-October of FY19 and raised hopes of an incipient investment recovery in the economy seems to be losing steam again. Barring December, capital goods are recording negative growth in each month since November," Devendra Kumar Pant, chief economist at India Ratings and Research, said.

In January, the growth rate for consumer durables also fell to 1.2 per cent, from the 2.3 per cent growth in January. "A 1.2 per cent, consumer goods production is also reflective of inventories that have built up in Q3, when capacity utilisation also improved. But, with demand tapering off, production has slowed down," Madan Sabnavis, chief economist at CARE Ratings, said.

Consumer non-durables commanded a growth rate of 4.3 per cent in February, up from 3.3 per cent in January. All other user-based segments either showed a negative growth or low-single digit growth.

Overall IIP growth for FY19 would be about 4.5 per cent, which is half per cent lower than what we had projected earlier, Sabnavis added.

Of 23 sub-sectors within manufacturing, 13 recorded a year-on-year contraction, compared to 11 in January. Slowdown in major sectors such as metals and refined petroleum brought down overall growth. On the other hand, apart from furniture and food manufacturing, which saw healthy growth in the financial year, computer hardware production managed to see a healthy growth.

This is after the government pushed manufacturing in the sector on a sustained basis over the past nine months, through a series of benefits and the phased manufacturing programme aimed to reduce imports of electronics goods. The two other sectors in the IIP — electricity and mining — also saw muted growth in February, data released on Friday showed.

Electricity generation rose 1.2 per cent in the latest month, slightly more than the 0.93 per cent rise in January. On the other hand, mining output grew by 2 per cent in February, against a 3.92 per cent rise in January.

At 2.86%, CPI inflation at 5-month high in March

Food rates and health services drive up inflation

INDIVJAL DHASMANA
New Delhi, 12 April

The retail inflation rate touched a five-month high of 2.86 per cent in March, helped by the prices of food and health services.

The inflation rate, however, remained within the Reserve Bank of India's (RBI's) overall target range of 2-6 per cent, prompting economists to expect another 25-50 basis points' cut in the policy rate by the monetary policy committee in 2019-20, though not in the next policy.

The food inflation rate rose to 0.30 per cent in March after witnessing a contraction in the past five months. In February, the food deflation rate stood at 0.73 per cent. This pushed up the overall inflation rate, from 2.57 per cent in February.

The core inflation rate (inflation rate sans food and fuel), meanwhile, fell to 4.97 per cent in March, from 5.36 per cent in February.

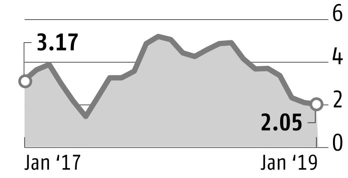
Within food items, vegetables, fruits, pulses and sugar remained in deflation in March.

Elsewhere, CPI inflation fell in March compared to February, except for in health services. For instance, clothing saw the inflation rate coming down to 2.49 per cent from 5.58 per cent. Similarly, the inflation rate in rent, calculated for only urban areas, fell to 4.93 per cent from 10.07 per cent, while fuel declined from 6.84 per cent to 2.42 per cent.

Devendra Pant, chief economist at India Ratings, said inflation is likely to remain benign till the third quarter of financial year 2019-20 and may breach the 4 per cent mark in the fourth quarter.

THE TRAJECTORY

CPI-based inflation in % YoY



Note: Base year is 2012 Source: MoSPI

Only household goods and services witnessed the inflation rate rising to 6.05 per cent in March from 3.80 per cent. Within this category, the inflation rate in health rose from 5.89 per cent to 8.86 per cent. There were some issues related to calculation of inflation in health, and economists remained suspicious of the figures.

Sujan Hajra, chief economist and executive director at Anand Rathi Shares & Stock Brokers, said inflation, despite hardening, remains extremely benign as compared to the longer-term trend.

"So we expect the RBI to continue with the neutral rate and accommodative liquidity stance. We expect 25-50 bps rate cut in 2019. However, after two successive cuts, the RBI may pause in the next policy," he said.

B Prasanna, group head, global markets – sales, trading and research at ICICI Bank, said further rate cuts, though not ruled out, would be data dependent based on clarity on food and fuel trajectory, fiscal situation and some indication of transmission of the twin rate cuts.

Food inflation fell to lowest since 1991

The average food inflation rate fell to the lowest in 2018-19 since India undertook a seachange of economic reforms in 1991. "The food inflation rate of 0.14% in 2018-19 was the lowest since 1991," D K Joshi, chief economist, CRISIL, said. The CPI inflation rate has been there since 2011-12. Before that, Joshi took food inflation figures for CPI-industrial workers into account for comparison. INDIVJAL DHASMANA

IN BRIEF

Mallya fails to delay $40-mn claim, legal costs mount in UK

Even as Vijay Mallya (*pictured*) renewed an appeal against his extradition to India, the liquor tycoon suffered another legal setback on Friday in a separate $40-million claims case brought by British liquor giant Diageo in the UK High Court. Justice Clare Moulder ruled against the 63-year-old former Kingfisher Airlines boss' application to seek a delay in the full hearing in the case scheduled for May 23 and additionally ordered him to pay legal costs of £34,000. She was extremely critical of the "unexplained" delays by Mallya in clearing the unpaid invoices of his previous solicitors Greenwoods, which resulted in his new solicitors Joseph Hage Aaronson (JHA) finding themselves in "difficulty" and wanting to seek an unfair adjournment. PTI

Forex reserves swell by $1.87 bn to $413.8 bn

The country's foreign exchange reserves rose by $1.876 billion to $413.781 billion in the week ended April 5, aided by a rise in foreign currency assets, Reserve Bank data showed on Friday. In the previous week, the reserves had surged by $5.237 billion to $411.905 billion, helped by the maiden dollar-rupee swap conducted by the RBI. In the reporting week, foreign currency assets — a major component of the overall reserves — rose by $2.062 billion to $386.116 billion. PTI

Asked FinMin to not return unused funds: Sitharaman

Defence Minister Nirmala Sitharaman on Friday said her ministry has made a "clear demand" to the finance ministry that once defence budget is allocated, the unutilised part of it not be sent back to consolidated funds. Addressing a gathering after releasing reports on indigenous research and development and cyber security, by Vivekanada International Foundation, she said, "The long-term perspective plan is becoming a rolling long-term perspective plan." PTI

LVB to allot 16.8 mn shares to Indiabulls Housing Finance

Prior to the merger with Indiabulls Housing Finance , announced last week, Lakshmi Vilas Bank (LVB) is planning to issue 16.8 million shares to it on a preferential basis. The board of directors of the bank has approved allotment of up to 16.8 million equity shares of face value of ₹10 each, to Indiabulls Housing Finance on a preferential basis to raise funds for its operations. According to the merger terms, the shareholders of LVB will get 14 shares of Indiabulls Housing Finance for every 100 equity shares held in the bank. BS REPORTER

More bank mergers can spur efficiency, RBI researchers say

More consolidation in struggling banking sector will help lenders lower costs and efficiently scale their operations, said researchers at the Reserve Bank of India. Labor cost efficiency, or output per employee, moderated across the sector between 2005-2018, according to the recently published paper. The authors added that state-run banks fared better than private rivals on this metric because they slowed hiring and adopted technology, while larger banks reaped the benefits of scale. BLOOMBERG

'4th industrial revolution will make future of work uncertain'

As the International Labour Organization (ILO) marks its centenary amid unprecedented technological transformation and disruption in the labour market, India has said the fourth industrial revolution will add unpredictability to the future of work, requiring people's opportunities and well-being to be localised and re-examined. "Anxiety about the impact of technology on the world of work is not new. The question of how technology shapes work and labour and how society should shape technology through choices and policies, has always fuelled intense public debate," India's Deputy Permanent Representative to the UN Ambassador K Nagaraj Naidu said on Thursday. PTI

RBI has exhausted rate cut space, says IMF

Supports govt and Reserve Bank's plans for gradually opening up the economy to foreign investors

ANUP ROY
Washington, 12 April

The Reserve Bank of India (RBI) should not cut its policy interest rate any further, the International Monetary Fund (IMF) has said. It should, instead, keep the powder dry to fight an unexpected financial market turmoil that may hit after June this year if the US and China don't reach a long-term trade agreement, it warned.

The IMF, though, is impressed with the way the countries in the region, including India, fought the financial markets uncertainties last year when the currencies witnessed depreciation pressure because of oil price rise, and the US Fed normalisation. That risk, according to Changyong Rhee, director of the IMF's Asia and Pacific Department, is much reduced now.

"What we are worrying about now are two things — if there is no agreement reached on contrary to the market expectations, markets can react quite negatively, because they have already factored in some agreements to be reached. And if the tariffs are really increased, then the trade volume can significantly go down. That's a scenario that we are worried about," said Rhee at the press briefing of the Asia-Pacific region.

Even as the current environment allows more policy space to enhance growth and financial stability, the downside risk still remains and is higher now, the IMF warned.

"There are lots of uncertainties... whether the deal (on the US-China trade) will be reached or not. And then also, the global economy is slowing down. Given these uncertainties, I think it is still important for Asian policymakers not to be complacent, and look at how the things will go and try to save the ammunition in general," Rhee said, even as he took comfort in the fact that if the downside risks materialise, "they have space to react".

India, in particular, should exercise a pause, given that there have been two cuts already after the government missed fiscal consolidation targets yet again in the interim Budget.

"We think the two cuts were appropriate. But at this stage, together with the fiscal stimulus, we think that room for monetary policy easing has probably been exhausted," said Anne-Marie Gulde-Wolf, deputy director of the Asia and Pacific Department at IMF.

"You have to see it all in a macroeconomic and global context. As we stand right now, the room (for cuts) has been exhausted," said Gulde-Wolf.

The six-member monetary policy committee headed by newly appointed Governor Shaktikanta Das executed two back-to-back repo rate cuts of 25 basis points each to bring down the policy repo rate to 6 per cent, citing growth concerns. The bond market in India expects at least one more rate cut this year. But the IMF's warning could prolong the waiting period.

Overall, the IMF sees Asia growing at 5.4 per cent in 2019 and 2020, though with increased downside risks. India is expected to grow at 7.3 per cent in 2019 and then at 7.5 per cent in 2020, slightly lower than projected in October 2018.

"In India, a slower pace of fiscal consolidation than previously envisaged, together with monetary easing, should support growth," Rhee said in his opening remarks, adding, "India remains globally the fastest growing large economy".

"In India, a slower pace of fiscal consolidation than previously envisaged, together with monetary easing, should support growth"
Changyong Rhee, director, IMF's Asia and Pacific Department

"India has taken decisive steps to lay down a sound foundation for macro-financial stability and robust economic growth"
RBI Governor Shaktikanta Das at IMF Meeting in Washington DC

Capital account convertibility

The IMF officials endorsed India's stance on gradual liberalisation of the capital account. At 70 per cent, India's debt to GDP ratio is much higher than the 40 per cent level that would be required to open up space fully for the foreign investors, according to Gulde-Wolf.

"We will support a continued, gradual liberalisation of India's capital account, broadly in line with the plans of the government and the RBI. This strategy needs to be well balanced considering the emerging external vulnerabilities that are around and taking into account the very high financing needs of the government. When looking at the capital account liberalisation, we would encourage looking at FDI (foreign direct investment). This should be a priority and then gradual opening in for portfolio flows afterwards," Gulde-Wolf said at the press conference.

These are the same considerations for full convertibility of the Indian rupee, she said. The rupee is convertible on the current account, but not on the capital account. This means rupee cannot be freely converted into a foreign currency, and vice versa beyond a certain limit and purpose.

"The government has a medium-term fiscal strategy that looks at limiting debt at 40 per cent, once you are at that level and sustainability is achieved, then that would be the right time to consider the full opening of the capital account," said Gulde-Wolf.

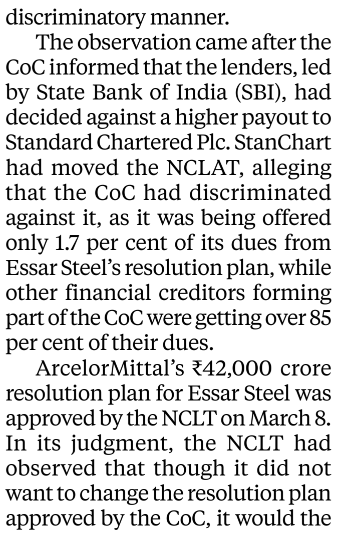
FROM PAGE 1

SC halts payment to Essar Steel creditors

This amount would have to be deposited by ArcelorMittal on April 23, when it would next hear the case, the appellate tribunal had said. The NCLAT had then said it was not setting aside ArcelorMittal's resolution plan approved by the Ahmedabad Bench of the NCLT but would look into the issue of redistribution of funds if it found the CoC had treated financial and other creditors in a discriminatory manner.

The observation came after the CoC informed that the lenders, led by State Bank of India (SBI), had decided against a higher payout to Standard Chartered Plc. StanChart had moved the NCLAT, alleging that the CoC had discriminated against it, as it was being offered only 1.7 per cent of its dues from Essar Steel's resolution plan, while other financial creditors forming part of the CoC were getting over 85 per cent of their dues.

ArcelorMittal's ₹42,000 crore resolution plan for Essar Steel was approved by the NCLT on March 8. In its judgment, the NCLT had observed that though it did not want to change the resolution plan approved by the CoC, it would the lender to reconsider distribution of dues and give 15 per cent of the total offer to operational creditors.



The Lakshmi Mittal-led company has been fighting for the control of Essar Steel for well over 600 days now. The case has seen many twists and turns, including a settlement plan of ₹54,389 crore made by the promoters of Essar Steel, who offered to pay off the entire debt. The plan was, however, rejected by the NCLT.

ArcelorMittal's bid, on the other hand, includes an upfront payment of ₹42,000 crore towards the debt resolution of Essar Steel, with an additional ₹8,000 crore of capital infusion into the company to support operational improvement, increase production levels, and deliver enhanced levels of profitability. In October 2018, the CoC of Essar Steel had voted to approve ArcelorMittal's plan and a letter of intent was issued.

Earlier, the Ahmedabad bench of NCLT had sent the first round of bids for Essar Steel back to the RP and the CoC for reconsideration, after it was found that both ArcelorMittal and the then bidder Numetal had not been given time to "cure" their ineligibility. The RP had disqualified both ArcelorMittal and Numetal in the first round. While ArcelorMittal was disqualified as it had not cleared the debt of related company Uttam Galva prior to submission of the bid, Numetal was disqualified owing to Rewant Ruia's exposure in the company. Rewant is the son of Ravi Ruia, who is a promoter of Essar.

CERC okays new tariff plan for Adani Power Mundra

Any price escalation beyond it will be borne by the developer, Adani. The revised energy charges under the amended PPA will come into effect from October 15, 2018, the CERC ordered. In an exchange notification, Adani Power said the amendments "will allow Adani Power Mundra to address the under-recovery of fuel costs".

The CERC has also allowed the extension of this amended PPA by 10 more years at the same rate. The developer will have to share the mining profit that will come from sourcing coal from its own mines outside India. Any additional capacity that comes at this project site will follow the same tariff directive.

A Gujarat Urja Vikas Nigam official told *Business Standard* the state discom would look to implement the revised PPA in accordance with the mandated date. "With Adani and other plants running at sub-par capacity, we were forced to procure power from the open exchange at costlier tariffs. The order will now help us save on the same. We hope that in the near future, other plants lagging in capacity will also be revived," the official said.

Adani Power Mundra was commissioned in 2008 at a tariff of ₹2.35 per unit. The imported coal project had quoted record low tariff with singular coal cost for 25 years. However, imported coal prices escalated in 2010. Adani, along with Tata Power, petitioned for compensatory tariff. The CERC provided relief in 2014. It was, then, denied by an appellate tribunal, and again awarded by the same in 2016. The Supreme Court quashed any compensation to the units in April 2017. It directed the CERC "to compute relief according to the respective PPA".

Meanwhile, the Gujarat government formed an HPC to formulate a relief plan for the imported coal-based plants in its territory, the lenders and the consumers. The move was in response to Tata and Adani pleading with the state to buy equity in their projects, as they were unable to operate with high coal cost and low tariffs. The developers had asked the state to take over the equity in these projects.

"If these projects are not rehabilitated, the closure can be imminent and permanent, leading to a significant loss of generation capacity in the western region, which cannot be compensated from other generation sources at a similar tariff. The consequent demand and supply mismatch can have an adverse impact on the economic growth of Gujarat, since this capacity constitutes a significant proportion of its energy basket," the CERC said.