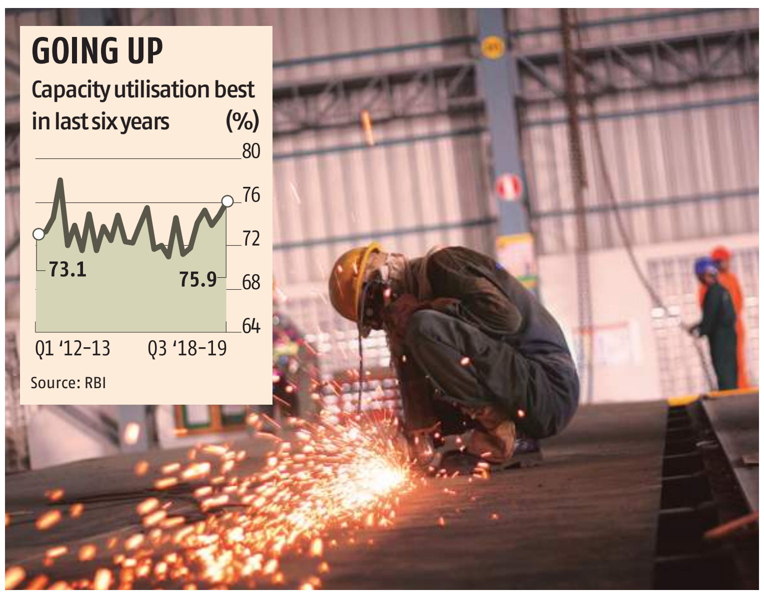
Industry efficiency improves but new orders dip, finds RBI

Capacity utilisation in manufacturing rose to a 23-quarter high of 75.9% in October-December 2018

ABHISHEK WAGHMARE
New Delhi, 7 April



As the economy slowed in successive quarters in the last financial year, the manufacturing sector witnessed an interesting trend in the third quarter (Q3). While the efficiency of industrial activity rose to its best in the past six years in Q3, industry's investment appetite showed the sharpest fall ever measured, latest results from the Reserve Bank of India (RBI) surveys show.

Capacity utilisation (CU) in manufacturing rose to a 23-quarter high at 75.9 per cent in October-December 2018. Only in the last quarter of 2012-13, a better utilisation of 78 per cent was recorded, according to Order Books, Inventories and Capacity Utilisation Survey (OBICUS).

At the same time, new orders placed by manufacturing companies contracted by 11 per cent in Oct-Dec 2018, the sharpest fall since the 2008 financial crisis. While the CU survey samples nearly 900 companies, the order books survey samples 100 companies in the corporate sector.

Industry players and experts told *Business Standard* that though aggregate demand is rising, it is not of "investment grade". Rising demand would be catered to by increasing the efficiency in existing capacity, and by release of stuck capacity via insolvency processes, rather than capacity addition. They also said consumption patterns in the economy could have plateaued or settled down on a new lower normal.

"Deleveraging of the private corporate sector is underway. The IBC processes are releasing capacity that was stuck in insolvency, thereby reducing the requirement for new capacity," said D K Joshi, chief economist at Crisil.

CU had remained low for successive quarters in FY17 and FY18. Usually, its peak in a financial year occurs in the last quarter, previous years' data shows. Bucking the trend, CU in Q3 of FY19 has trumped that recorded in the last 22 quarters.

New orders grew sharply after demonetisation, with the third quarter of FY18 showing a 77 per cent jump. Experts said a contraction after a boom indicates that the industry is not ready for new capacity now.

Sources from the capital goods industry said orders finalised in Q4 of FY19 have not been encouraging. "The current demand is not of investment grade. Even if there is a further demand push in the economy, it is unlikely to drive new capacity addition," M S Unnikrishnan, MD and CEO, Thermax, said.

Experts also said while some sectors have been pushing up the overall CU, some are performing below the industry average. Power and fertiliser sectors are not doing well in terms of using the nameplate capacity efficiently.

Cement, along with paper, aluminium and steel, are doing better, they said. Data from Holtec consulting shows that CU in the cement sector is above the general trend. It was 75 per cent in FY18, while it has touched 80 per cent in FY19, five percentage points above the average.

Pronab Sen, an economist and a former chief statistician of India, said though CU is at its peak, it is not clear if the new orders are falling due to lower requirement of capacity, or due to technological advances in existing capacity which makes it more efficient.

However, saying that order books broadly indicate aggregate demand, he said the fall in them suggests slow growth in consumption. He said the disruptive impact of demonetisation and goods and services tax (GST) has a lot to do with this trend.

He also said the MSME sector, which is recovering from the twin impact, might have made a comeback, resulting in a relative drop in orders from the corporate sector. The RBI surveys measure only the latter.

The RBI's monetary policy committee, in its recent statement, noted a "significant moderation" in economic activity based on high frequency indicators such as auto production and sales, port traffic, etc. It also noted that production of capital goods contracted in January, while their imports contracted in February.

In another befuddling trend, while consumer confidence was the highest seen since demonetisation, business expectations for the current first quarter of FY20 dropped to a seven-quarter low, shows the RBI survey data.

Deep post-election change unlikely

EXIM MATTERS

T N C RAJAGOPALAN

In its election manifesto, the Congress party says it will reward export-oriented industries through tax rebates and incentives. It also promises to review and replace the current Goods and Services Tax (GST) laws with a 'GST 2.0' regime that will truly reflect the intent and purpose of a non-cascading, value-added, indirect tax. Another pledge is to enact and enforce a comprehensive 'Law on Doing Business in India' that will incorporate the best business practices and rules.

Few can quarrel with its statement that export creates jobs and no country has achieved high economic growth without high growth of export. However, there is also nothing new in its intent to zero-rate the export of goods and services; this is already reality. There might be takers for its intent to announce a 'Make for the World' policy, under which foreign and Indian companies will be invited to invest in 'Exclusive Export-only Zones', manufacture and export their entire production, pay no indirect taxes and only pay a low rate of corporate tax. Again, Special Economic Zones were set up with precisely the same objective. Its aim to promote export of India's traditional products like handloom products and handicrafts is also a routine statement, telling us nothing about how it is any different from current policy.

It is easy to promise removal of restrictions on export and import of agricultural products but difficult to do so, considering the need to ensure availability of such items in the domestic markets and ensuring price stability. The idea to deviate from WTO (World Trade Organization) rules only with sufficient justification and for a limited period, and to review the Foreign Trade Policy within three months, does make sense. The thought of promoting cross-border trade in the northeast is also welcome.

The manifesto says the promised GST 2.0 regime will be based on a single, moderate, standard rate of tax on all goods and services. However, this means no relief for consumers, since it also says the rate will be revenue-neutral to current indirect tax revenues. It also talks of a special rate of duty on demerit goods, which already exists by way of compensation cess. It says essential goods of mass consumption (such as foodgrain, lifesaving drugs, vaccines, etc) and essential services will be exempted from GST 2.0 or zero-rated but that is already the case.

The promise to bring real estate (all segments), petroleum products, tobacco and liquor within the ambit of GST 2.0 in a manner and time period not exceeding two years can materialise only if the GST Council agrees to it. The proposal to abolish the e-way bill and instead detect evasion through risk management mechanisms and strengthening the intelligence machinery will be widely welcomed. So will the ideas to allocate a share of GST revenue to panchayats and municipalities, do away with the reverse charge mechanism for purchases from unregistered dealers, not to let threshold exemption for small businesses be affected by inter-state supply of goods or services, on quarterly returns, re-design of websites to make these user friendly, etc. Although much will depend on how the GST Council responds to the suggestions.

Overall, the Congress manifesto does not suggest major disruptions but only changes that will address any distortion. In any case, the manifesto of the ruling party matters more.

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Treatment costs under Ayushman Bharat to be revised

The government is working on creating standard treatment protocols so treatment under the scheme is of good quality

VEENA MANI
New Delhi, 7 April

The central government's flagship health scheme, Ayushman Bharat, will see more changes as a team is working on rationalising package rates.

The government started the process of revising rates after hospitals said these rates wouldn't be viable.

While surgeries cost lakhs of rupees outside the scheme, under Ayushman Bharat they cost a few multiples of ₹10,000.

There was a meeting of senior officials on revising the rates of packages.

Till April 3 this year, close to 3 million beneficiaries received their cards and 1.8 million beneficiaries availed of services under the scheme.

Over 15,000 hospitals have been empanelled by the government, a thousand more hospitals than in November.

Private hospitals in India have been expressing their displeasure with the package rates in the scheme.

Senior officials say the number of procedures in the scheme might be brought down.

A senior government source said: "We have found some procedures are overlapping with those of other health programmes. These include C-section deliveries and cataract operations. Those can be covered under those schemes instead of beneficiaries receiving treatment under Ayushman Bharat."

Apart from this, the government is working on revising the rates of procedures. While a few procedures will be removed, the government plans to add others.

Experts suggest removing some packages could be detrimental to hospitals' interests because the Ayushman Bharat scheme offers better rates for such schemes.

Meanwhile, the government is working on creating standard treatment protocols so that treatment under the scheme is of good quality.

The Budget provided ₹6,400 crore for Ayushman Bharat, for which where the state pays 40 per cent of the premium and the Centre 60 per cent.

The scheme will provide tertiary care to those who feature in the Socio-Economic Caste Census 2011. Each beneficiary gets treatment worth up to ₹500,000. Officials said 100 million families were eligible for the scheme.

The scheme covers 1,354 medical and surgical packages under 25 specialties. The benefits include hospitalisation expenses in the general ward; consultation fees; equipment and procedure charges; the cost of consumables and tests; food for patients; and pre- and post-hospitalisation.

The Ayushman Bharat scheme was rolled out by scrapping the Rashtriya Swasthya Bima Yojana. RSBY provided medical cover up to ₹30,000. Earlier, the government had planned an insurance of up to ₹100,000, but that was revised and the Ayushman Bharat scheme was launched.

India rejects 'preposterous' Pak claim of another strike

PRESS TRUST OF INDIA
New Delhi/Islamabad, 7 April

India on Sunday rejected as "irresponsible" and "preposterous" Pakistan Foreign Minister Shah Mahmood Qureshi's claim that India was planning to carry out another attack on Pakistan, saying his comments were aimed at whipping up war hysteria in the region.

Qureshi told reporters in Multan that Pakistan had "reliable intelligence" that India was planning to attack Pakistan again between April 16 and 20, adding that five permanent members of the UN Security Council were apprised about it.

In a strongly worded statement, External Affairs Ministry Spokesperson Ravesh Kumar called Qureshi's comments a "public gimmick" appearing to be "a call to Pakistan-based terrorists to undertake a terror attack in India". "India rejects the irresponsible and preposterous statement by the foreign minister of Pakistan with a clear objective of whipping up war hysteria in the region. This public gimmick appears to be a call to Pakistan-based terrorists to undertake a terror attack in India," Kumar said.

He said India reserves the right to respond "firmly and decisively" to any cross-border terrorist attack.

In Islamabad, the Indian Deputy High Commissioner was summoned to Pakistan Foreign office and he was issued a warning against "any misadventure" by India.

STATSGURU

Policy boost in low-inflation phase

IN LINE with market expectations, the monetary policy committee (MPC) decided to reduce the benchmark repo rate by 25 basis points last week, to 6 per cent (Chart 1).

The nudge came from low levels of consumer price index (CPI) inflation, which remained below expectations. Though the core CPI inflation rate dropped but remained high at 5.3 per cent in February, headline CPI inflation remained low—rising a bit—to 2.6 per cent (Chart 2).

The MPC expects low levels of inflation to continue for a long period. It revised projections downward to 2.9-3.0 per cent in H1 FY20 and 3.5-3.8 per cent in H2 FY20.

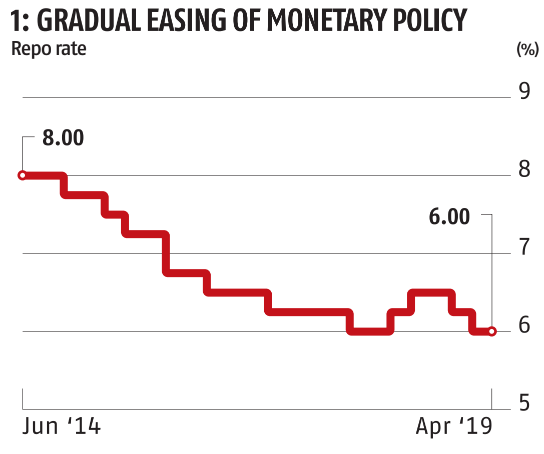
Expected growth in FY20 was subsequently revised downward from the initial expectation of 7.4 per cent to 7.2 per cent (Chart 3). Many high frequency indicators "suggest significant moderation in activity", the MPC noted. It is evident in the sustained contraction in auto production (Chart 4).

Households too are expecting inflation to subside, with the three-month-ahead and the one-year-ahead expectations declining by 40 basis points (Chart 5).

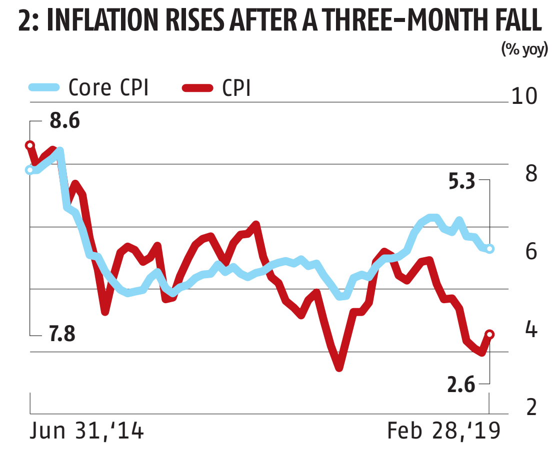
Oil showed a different picture, with the MPC underlining the rise in global crude oil prices, which rose 10 per cent since the last policy announcement in February (Chart 6).

Yet, some macro indicators remained in the positive, with the investment rate rising to 33.1 per cent of GDP in Q3 FY19 from 31.8 per cent of GDP in Q3 FY18. This was supported by "the government's thrust on the road sector and affordable housing," the MPC said. Capacity utilisation in industry rose to its highest in the last six years (Chart 7). ABHISHEK WAGHMARE

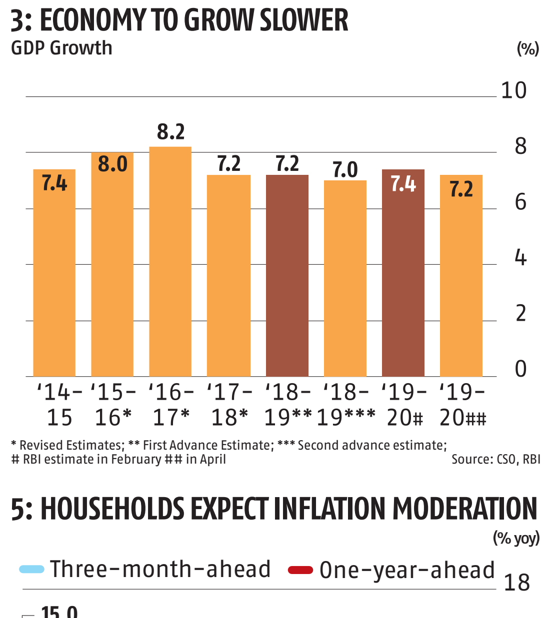
1: GRADUAL EASING OF MONETARY POLICY



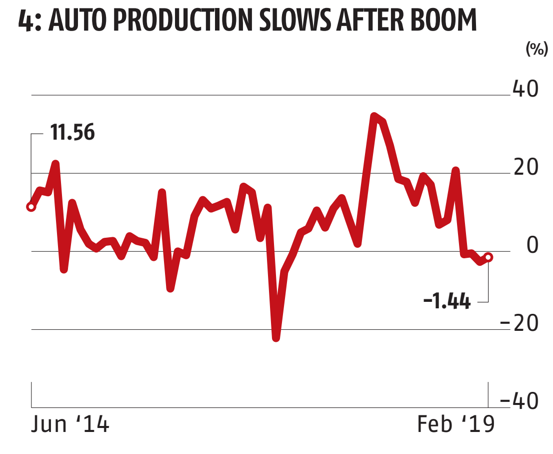
2: INFLATION RISES AFTER A THREE-MONTH FALL



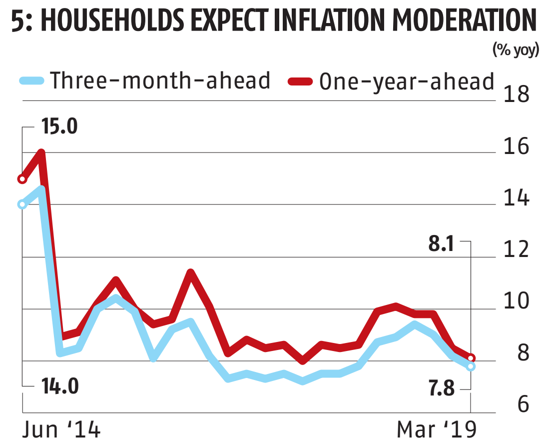
3: ECONOMY TO GROW SLOWER



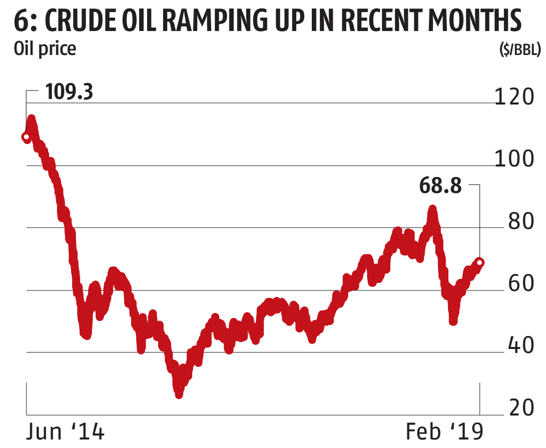
4: AUTO PRODUCTION SLOWS AFTER BOOM



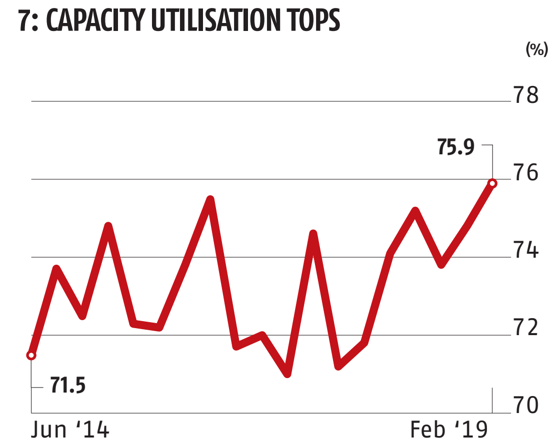
5: HOUSEHOLDS EXPECT INFLATION MODERATION



6: CRUDE OIL RAMPING UP IN RECENT MONTHS



7: CAPACITY UTILISATION TOPS



StatsGuru is a weekly feature. Every Monday, *Business Standard* guides you through the numbers you need to know to make sense of the headlines

Compiled by BS Research Bureau