Market Watch

FPIs pull out ₹2.8K cr in 2 sessions

New Delhi: Continuing their selling spree, foreign portfolio investors (FPIs) have withdrawn a net amount of Rs 2,881 crore from the Indian capital markets in the first two sessions of August on account of domestic as well as global headwinds. **PTI**

RBI MONETARY POLICY COMMITTEE TO MEET FROM AUGUST 5-7

Amid slipping growth and low inflation, markets factor in another policy rate cut

GEORGE MATHEW
MUMBAI, AUGUST 4

A DEEPENING economic slowdown has fuelled expectations of another rate cut by the Reserve Bank of India, at its upcoming Monetary Policy Committee (MPC) meeting.

After Finance Minister Nirmala Sitharaman publicly commented on the need for 'significant rate cuts', analysts are expecting the central bank's MPC to cut the key lending rate — Repo rate — by another 25 basis points, while cautioning the markets against putting the onus on a recovery predominantly on monetary policy.

Arguing for a rate cut, analysts point to consistently low inflation and an economy which is slowing and growing below the reported numbers and well below the MPC's own estimate of 7 per cent for FY20 for a liberal policy regime.

The MPC is scheduled to meet between August 5 and 7.

Though the MPC has the leeway to cut rates further given its mandate of 4 per cent headline consumer price index (CPI) inflation, having already cut the Repo rate by 75 bps from 6.5 per cent to 5.75 per cent over the last three meetings, it is to be seen how much the central bank can help as transmission of rate cut benefits by banks has been rather slow.

Growth and inflation will remain worries for the RBI. On Friday, HDFC chairman Deepak Parekh said there has been a distinct slowdown in the economy and the problem was compounded by the tight liquidity situation in the non-banking financial companies (NBFCs) and housing finance companies (HFCs) and the reluctance of banks to lend funds.

Meanwhile, L&T chairman AM Naik had said that "we should feel 'lucky' even if GDP clips at 6.5 per cent".

Stock market benchmark Sensex, which has already seen the slowdown blues, plummeted by a whopping 2,800 points from 39,908.06 on July 4 to 37,118.22 on August 2 — a decline of 7.8 per cent after the presentation of the Union Budget on July 5.

Foreign portfolio investors (FPIs), worried over the 'super rich tax', pulled out Rs 12,419 crore in July and another Rs 2,633 crore in August so far.

Shanti Ekambaram, president–consumer banking, Kotak Mahindra Bank, said, "Since the last policy, data and trends emerging indicate that inflation continues to be stable and is trending on the lower side. Further, growth has been muted on account of visible consumption slowdown as well as subdued investment outlook."

"Despite a late start, we have seen that the monsoon has reasonably caught up, which should give a boost to agriculture and lead to the revival to some extent of consumption in rural India," she added.

Globally, negative yields have been seen in certain countries and overall interest rates either are stable or dropping, and growth has slowed.

"Against this backdrop, the central bank is likely to cut the Repo rate by 25 bps. It will be important to study the policy narrative to get a direction of likely future action by the RBI, liquidity measures, any other structural changes etc.

"Suffice it to say that inflation will be the central theme balanced with the need to boost growth," Ekambaram said.

According to Suvodeep Rakshit, senior economist, Kotak Institutional Equities, the RBI MPC will meet for the August policy in the backdrop of weak economic growth increasingly becoming a bigger concern, even as the inflation trajectory remains broadly in line with its expectations.

"Since the last policy meeting high frequency indicators have signalled a sharper decline in activity which will weigh on the policy meet discussions," he further said.

While the RBI's inflation estimates of 3-3.1 per cent in the first half of FY20 and 3.4-3.7 per cent in the second half of FY20 are unlikely to be breached by a significant margin, the near term outlook on growth (6.4-6.7 per cent in H1FY20) will likely see substantial downside risks.

Further, core inflation has steadily softened and will likely remain subdued given the weak aggregate demand scenario, indicating a widening of the output gap, said an analyst.

On the global front, growth remains under pressure, global central banks are indicating easier monetary policy, US-China trade war continues to simmer, Brexit-related uncertainty remains high, and crude prices outlook remains benign.

Significant growth concerns, comfort from the inflation trajectory, and weak outlook on global macro scenario should provide room for the RBI to reduce Repo rate by another 25 bps to 5.5 per cent in the August policy, Rakshit said.

"It (RBI) is widely expected to cut the Repo Rate by 25 bps and which is already discounted by the bond, equity and currency markets. The markets thus will be looking for further guidance on how much more can the MPC cut the Repo rate going forward," said Arvind Chari, head-fixed income, Quantum Advisors.

The Repo rate being cut below 6 per cent and the RBI turning accommodative has happened only twice before in the last 20 years.

It is not a common occurrence and only a continued economic slowdown (like the one in 2002-03) or a financial crisis (2008-09) made the RBI to cut well below the six per cent mark, Chari said.

Abhishek Bansal, chairman, ABans Group of Companies, said, "We expect the RBI to cut interest rate by 25 basis points which will be the fourth time in a row. FIIs' (foreign institutional investors) outflow continued to grow in July to Rs 15,373 crore following a trend from consecutively last two months, while domestic institutional investors remained supportive."

In India, monetary and fiscal excesses have not ended well. In a country which has had average 5 per cent inflation, even if Repo rates do get cut to 5 per cent, it seems unlikely it will sustain there for long.

EXPLAINED

Inflation remains benign, but growth concerns persist

THE MONETARY policy review comes at a time when there is renewed focus on the economic growth.

Since the last policy meeting, data sets seem to indicate that while inflation is trending on the lower side, growth continues to be subdued on account of the visible consumption slowdown and sluggish investment outlook.

To ensure authenticity, APIs of drugs may soon get track-and-trace codes

PRABHA RAGHAVAN
NEW DELHI, AUGUST 4

In 2015, DTAB had deliberated a proposal for mandatory bar coding at various levels of drug packaging to track their movement

THE HEALTH Ministry may soon make it mandatory for companies to include codes to track-and-trace key ingredients used to make medicines in India, *The Indian Express* has learnt.

If implemented, the move will potentially be the first step by the government to pinpoint the origin and movement of drugs manufactured here and ensure their authenticity.

A draft amendment mandating quick response (QR) codes at "each" level of packaging of active pharmaceutical ingredients (APIs), used to give medicines their therapeutic effect, is ready and will be notified "soon", said a senior Health Ministry official. *The Indian Express* has viewed a copy of this draft.

"The basic drug is in the API. For a medicine to be effective, the API has to be effective. As a first step (to tracking and tracing medicines in the country), every API manufactured or imported in India will bear a QR code on its label at each level of packaging," the official added. India is currently dependent on China for imports of APIs to make "certain" essential medicines, with around Rs 12,255 crore worth of these ingredients imported from the country in 2016-17, as per government data.

The latest development follows recommendations by the Drugs Technical Advisory Board (DTAB) — India's apex drug advisory body — during a meeting this year, to include "necessary" provisions in India's drugs and cosmetics rules mandating QR coding on API labels.

"The Board was apprised that the Active Pharmaceutical Ingredient is most important constituent of any drug formulation. The supply chain with respect to its security and integrity in proper storage condition plays very important role to enhance quality supply of APIs," read the minutes of DTAB's meeting. The body made these recommendations after "stakeholders" suggested it.

Issues with qualities of APIs were raised earlier this year during a Drugs Consultative Committee (DCC) meeting, when Punjab sought provisions to make API manufacturers "accountable and responsible" for the quality and purity of their products.

APIs by "various" vendors have been found to be "not as per defined specifications with respect to their quality, specifications and purity and in certain cases the desired effects are not obtained," said the DCC meeting minutes on this issue. It added that Punjab's regulators "suspected that either such APIs are not manufactured at the right premises or such APIs are not manufactured with the required scientific techniques to produce the bio-active substance."

A track-and-trace system for pharma products has been under discussion for several years in this government to also check counterfeits (fake copies), but implementation has been stalled following intervention by sections of the industry in the past.

The Commerce Ministry in June this year announced it would implement a "robust" track-and-trace mechanism for the sector "in three months".

Even DTAB, in April 2015, had deliberated a proposal for mandatory bar coding on primary, secondary and tertiary levels of drug packaging to trace their movement from the manufacturer to retailer. Draft rules to this effect were brought out in June 2015, but "large numbers" of objections were received from stakeholders, so the rules are yet to be finalised.

There is lack of clarity on the scale of India's counterfeit and substandard drug problem. The US, in its Special 301 Report this year, estimated that up to 20 per cent of drugs sold in the Indian market are "counterfeit and could represent a serious threat to patient health and safety."

However, a nationwide survey conducted by the Indian government between 2014 and 2016 concluded that only around 3 per cent of the medicines here were substandard and only 0.023 per cent spurious or counterfeit.

Drug regulators here have, on many occasions, flagged medicines produced by even large drug makers for failing quality tests. Yet, the firms have refuted claims stating the products were counterfeit.

BRIEFLY

JM Financial arm to raise up to ₹500 crore

New Delhi: JM Financial said its subsidiary JM Financial Products Ltd will raise up to Rs 500 crore by issuing bonds. JM Financial Products Limited (JMFPL) has filed the Tranche II prospectus for its non-convertible debentures (NCDs), with the Registrar of Companies, BSE and Sebi, JM Financial said in a filing. "The said Tranche II prospectus is dated July 31, 2019 and pertains to the public issue of secured NCDs with a base issue size of Rs 100 crore with an option to retain oversubscription up to Rs 400 crore aggregating up to Rs 500 crore, which is within the shelf limit," JM Financial said in the filing.

'Deloitte quits as auditor of DHFL'

New Delhi: Deloitte has quit as the auditor of cash-strapped DHFL, sources said on Sunday. Communication regarding Deloitte quitting as DHFL's auditor has been sent to the Ministry of Corporate Affairs, one of the sources said. Another source confirmed that Deloitte has quit, but without citing any reasons. However, sources in DHFL denied to have received any such communication from Deloitte.

July green certificate sales fall 61%

New Delhi: Sale of renewable energy certificates declined by 61 per cent to 6.29 lakh units in July as compared to 16.18 lakh in the same month a year ago, on account of lower supply, according to official data released Sunday. Indian Energy Exchange (IEX) and Power Exchange of India (PXIL) are the two power bourses in India which are engaged in the trading of renewable energy certificates (RECs) and electricity. **PTI**

'Need to grow at 9% to achieve $5-tn economy target'

India will need to grow by 9 per cent every year for five years continuously and raise aggregate investment rate to 38 per cent of GDP to achieve Prime Minister Narendra Modi's target of turning India into a $5 trillion economy, EY said in its latest edition of Economy Watch

$3 trillion

Projected size of Indian economy in fiscal 2019-20 — up from from $2.7 trillion last fiscal — if grow rate remains 7 per cent

4%: Target inflation rate, as per Monetary Policy Framework

9%: Growth rate required in each of five subsequent years for economy to reach:

$3.3 trillion in	FY21
$3.6 trillion in	FY22
$4.1 trillion in	FY23
$4.5 trillion in	FY24
$5 trillion in	FY25

IMPLICIT INCREMENTAL CAPITAL-OUTPUT RATIO (ICOR)

4.6: India's ICOR in FY19, which is relatively high due to deficient capacity utilisation

4.23: India's average ICOR in the three-year period from FY17 to FY19

INVESTMENT RATE:

31.3% Gross investment rate in FY19, which delivered real growth rate of 6.8%

38% Investment rate required to raise India's growth rate to 9% in FY21

39.6% Highest investment rate achieved by India, which was in FY12

45% Average saving and investment rates in China, that have been maintained for a long period

SBI 'confident' auto industry will bounce back in festival season

ENS ECONOMIC BUREAU
MUMBAI, AUGUST 4

OFFICIALS OF State Bank of India (SBI) have expressed hope that the automobile sector, which is witnessing a slowdown, would bounce back in the festival season later this year.

Last week, SBI officials met Federation of Automobile Dealers Associations (FADA) and Mumbai auto dealers to discuss the current state of auto retail.

"I am confident that the auto industry will bounce back soon in the forthcoming festival season. We at SBI are always there for auto retail industry, especially our dealer partners to work in tandem with us in these tough times and beyond," said PK Gupta, MD, retail and digital banking, SBI.

"The aim of the meeting with Mumbai auto dealers along with FADA was to understand the current industry situation and take steps to ease the stress being faced by many dealers due to slowdown in auto sector," Gupta further said.

Hit by a dip in consumer sentiment and by the liquidity crunch in non-banking financial companies (NBFCs), car manufacturers witnessed a sharp decline in demand last month.

Various topics, including easing of liquidity from the bank's side, increase in credit repayment days on a case-to-case basis and how SBI can improve its services going forward, were discussed, FADA said.

"SBI further assured FADA of taking necessary steps to resolve the issues to reduce stress among auto dealers," the Federation added.

"FADA is highly satisfied with the steps taken by SBI and we hope that more such deliberations would continue to take place," said Vinkesh Gulati, vice president, FADA.

In July this year, Maruti Suzuki saw its domestic passenger car sales decline 36 per cent while Honda Cars India witnessed a 48.7 per cent fall in sales, over the corresponding period last year.

Toyota Kirloskar reported a 24 per cent fall, while Hyundai Motor India announced a 10 per cent drop for the same month.

Maruti Suzuki, which has over 50 per cent of India's auto market share, saw its domestic sales decline from 154,150 units in July last year to 98,210 units in July 2019.

In fact, July unit sales for the automobile manufacturer were the lowest since June 2017, when it sold 93,263 units.

BOEING STUCK IN GETTING 737MAX BACK IN AIR

For Airbus, capitalising on Boeing's woes is challenging

AGENCE FRANCE-PRESSE
NEW YORK, AUGUST 4

Airbus has overtaken American Boeing in key benchmarks in 2019. And the company is now better positioned to move quickly on a new jet product. *Reuters File Photo*

WITH ITS main rival hobbled by the worldwide grounding of a top-selling jet, Europe's Airbus could seem poised to emerge as the undisputed global aerospace leader. Airbus has overtaken American Boeing in key benchmarks in 2019. And the company is now better positioned to move quickly on a new jet product.

Meanwhile, the American company is mired in efforts to get its crisis-stricken 737 MAX planes back in the sky after two deadly crashes. Still, experts say the Toulouse, France-based aviation giant faces production constraints that likely limit its ability to grab more market share.

"Airbus is a winner only at the margins," said Richard Aboulafia, veteran analyst at Teal Group, an aerospace market analysis firm. To be sure, Boeing's suspension of deliveries of its top-selling plane has added luster to Airbus's solid and unscathed results.

Moreover, as the MAX grounding has dragged on since March, key airline customers are becoming increasingly blunt in expressing frustration. Airbus delivered 389 planes through the end of June, a rise of 28 per cent. During the same period, Boeing deliveries fell 37 per cent to 239.

It was the first time since 2011 that Airbus overtook its US rival in plane deliveries, which is when the bulk of revenues are generated, effectively rendering Airbus the world's largest aircraft maker.

Airbus also has had net orders of 88 planes in 2019, compared with Boeing, which has seen a decline of 119. At the Paris Air Show in June, Airbus announced orders for 383 planes worth $44 billion, about $10 billion more than Boeing's take from the show.

Still, a consolation prize for the US company was a letter of intent by British Airways parent IAG to buy 200 new 737 MAX planes, a vote of confidence in the aircraft. Airbus is primed to move faster with commercializing a new mid-distance plane, launching the A321XLR in Paris this year, a single-aisle plane with greater range and passenger capacity of 240.

Two-wheeler EV makers find takers in e-tailers, QSR firms

PRITISH RAJ
NEW DELHI, AUGUST 4

AS THE government and two-wheeler manufacturers remain at loggerheads over the deadline to phase out the conventional internal combustion engine and bring in electric vehicles (EV) instead, several entrepreneurs are busy creating a landscape to make the latter a success in their own small ways.

Fully conscious that electric vehicles in the two-wheeler space is not going to be an instant hit with consumers the way the government seems to think, these entrepreneurs are manufacturing at a low-scale and tying up with e-commerce (BigBasket, etc) and QSR firms (Dominos, etc) for their last mile deliveries.

Their model is simple: The e-commerce and QSR (quick service restaurant) firms have delivery staff who deliver products to consumers at their doorstep.

These EV manufacturers provide them with their two-wheelers on a lease basis for transporting products. In this way the EV players are able to test-market their products and as and when the market grows can accordingly scale up.

For e-commerce and QSR firms, the logistics costs are lower compared to using an internal combustion engine vehicle.

Saurav Kumar, co-founder and CEO of New Delhi-based Euler Motors said issues such as charging infrastructure and range anxiety will continue to keep the private consumers disinterested for a while. "Most of the delivery services platforms are fairly young and they aim at lowering costs of operation and EVs are clearly one of the options," Kumar said. The firm has already provided over 100 vehicles to companies like BigBasket, EcomExpress, Udaan and BlueDart. Euler Motors is a four-year-old start-up that manufactures a range of electric vehicles for carrying cargo and passengers.

Pankaj Tiwari, India business head of Avan Motors, said this is a segment which is eagerly looking for options of cost effective modes of commute for their delivery service executives, apart from environmental concerns.

"We have the B2B (business-to-business) segment as one of the key verticals of growth, which we are strongly pursuing and are in talks with such leading delivery services platforms to offer our electric scooters," he said. **FE**

Q1 EARNINGS

India Inc in dire straits; weak demand plagues every sector

ENS ECONOMIC BUREAU
MUMBAI, AUGUST 4

PROFITS FALL 27% FOR 548 FIRMS

- **In a sample of 548 companies, profits crashed 27 per cent year-on-year**
- **Despite valiant attempts to rein in costs operating margins were under pressure as were net profits**

THERE IS now more than abundant evidence corporate India is in deep distress. From steel to staples and cars to capital goods, every sector is feeling the pain from weak demand.

The worry is that there are few signs that demand will pick up in the coming months given the troubles in rural India. Few companies have been able to grow revenues meaningfully during the June quarter; for a sample of 548 companies (excluding banks, financials, TCS and Reliance Industries) revenues rose just 4 per cent year-on-year.

Despite valiant attempts to rein in costs operating margins were under pressure as were net profits; for the 548 companies, profits crashed 27 per cent y-o-y. A host of heavyweights —Tata Motors, Vodafone Idea and Bharti Airtel — reported losses.

Volume growth was insipid across sectors; at JSW Steel, for example, domestic volumes declined by 2 per cent y-o-y due to sluggish demand.

The macro data reflects the weakness in volumes; while cargo recorded a decline for the first time over the last 5 years, the growth at the major ports was only 1.5 per cent in Q1FY20 versus 4 per cent in the corresponding period in the previous year.

Railway freight too saw very sluggish growth of 2.7 per cent. HUL reported a 5 per cent y-o-y increase in volumes in Q1FY20, the slowest in seven quarters. Maruti Suzuki reported an 18 per cent y-o-y drop in volumes which pulled down Q1FY20 profits by nearly 28 per cent y-o-y.

Tata Global's India tea business reported a slower volume growth of 8 per cent y-o-y compared with 12 per cent y-o-y in Q4FY19. **FE**