Fitch slashes India's growth outlook to 6-year low of 5.5%

ENS ECONOMIC BUREAU
MUMBAI, OCTOBER 24

While an array of factors have contributed to the slowdown, including a downturn in world trade, Fitch said the severe credit squeeze has taken a heavy toll

FITCH RATINGS has slashed India's GDP growth forecast to a to a six-year low of 5.5 per cent in the current fiscal as "economy is being held back by a large squeeze in credit availability emanating from non-bank financial companies (NBFCs)".

"We expect economic growth to be 5.5 per cent in 2019-2020, before picking up to 6.2 per cent in 2020-2021 and 6.7 per cent in 2021-2022. Nevertheless, growth is likely to significantly below its potential over the next year or so," Fitch said in a report.

While an array of factors have contributed to the Indian slowdown, including a downturn in world trade, Fitch said the severe credit squeeze has taken a heavy toll. NBFCs have faced a severe tightening of funding conditions over the past year and a half. "They have in turn sharply reduced the supply of credit to the commercial sector. The auto and real estate sectors have been particularly hit by NBFC credit rationing," it said.

Data from the Reserve Bank of India (RBI) shows that the flow of new lending from non-bank sources was down 60 per cent year on year between April and September.

Assuming the sluggish pace of lending is maintained throughout the year, total new lending will amount to only 6.6 per cent of GDP in the fiscal year 2019-2020, down from 9.5 per cent in the previous fiscal year, Fitch said.

The economy decelerated for the fifth consecutive quarter in Q2, with GDP expanding by a meagre 5 per cent, down from 8 per cent recorded a year earlier. "This is the lowest growth outturn since 2013. Weakness has been fairly broad-based, with both domestic spending and external demand losing momentum," it said.

In contrast, banks' lending has held up well in recent months, mitigating some of the overall credit supply shortfall. However, bank lending could not prevent a sizeable credit crunch in the first half of 2019, it said.

Fitch said the success of the inflation-targeting framework adopted by the RBI in 2016 in reducing inflation has been associated with sharply rising real lending interest rates since mid-2018. While the RBI has been able to lower interest rates, policy rate cuts have not been fully passed through to new rupee loans. As a result, inflation-adjusted (real) borrowing costs have increased, weighing on credit demand, it said.

The lack of monetary policy transmission in India derives from the combination of high public-sponsored deposit rates against a backdrop of stretched banks' balance sheets.

Indeed, competition from public schemes, which offer more attractive deposit rates to customers, have made banks reluctant to cut deposit rates. Banks have maintained elevated lending rates to preserve their margins amid high funding costs.

TOTAL INCOME RISES 31% IN Q2FY20

IndiGo posts ₹1,062-cr loss on lease liabilities

ENS ECONOMIC BUREAU
NEW DELHI, OCTOBER 24

The current losses were up 63 per cent year-on-year, compared to a Rs 651-crore loss in Q2FY19, when the airline was impacted by high fuel costs and rupee depreciation

INTERGLOBE AVIATION, which runs low-cost airline IndiGo, on Thursday reported higher-than-expected losses of Rs 1,062 crore in the July-September period due to higher expenses.

The current losses were up 63 per cent year-on-year, compared to a Rs 651-crore loss in Q2FY19, when the airline was impacted by high fuel costs, rupee depreciation and intense competition leading to low fares.

Total expenses went up 27.6 per cent y-o-y to Rs 9,571 crore during Q2FY20, with a weaker rupee increasing the lease liabilities and re-assessment of future maintenance costs in a seasonally weak quarter.

The costs related to aircraft repair and maintenance nearly doubled to Rs 153 crore, while depreciation and amortisation costs grew more than fivefold to Rs 1,029 crore. Employee costs too increased 56 per cent y-o-y to Rs 1,206 crore as the airline inducted nearly 600 pilots and staff from the grounded Jet Airways. Aviation turbine fuel costs, meanwhile, were higher by 2.6 per cent, much lower than the 84 per cent y-o-y increase a year earlier.

While operating revenues jumped 31 per cent y-o-y to Rs 8,105 crore, operating margins or the Ebitdar (earnings before interest, tax, depreciation, amortisation and rentals) was down 40 bps y-o-y to 3.2 per cent.

The airline's revenues were pushed up by better volumes — it carried 15.4 per cent more domestic passengers in the September 2019 quarter — and better yields. The per passenger revenue stood at Rs 3.52/km in Q2FY20, up 9.4 per cent y-o-y.

According to the analysts, average domestic fares were up 7-8 per cent y-o-y during Q2FY20.

IndiGo, which had a fleet of 245 aircraft at the end of September 2019, added seven new domestic routes and six international destinations during Q2FY19.

The airline has benefited from closure of Jet as it received more than 40 slots at the busy Delhi and Mumbai airports.

According to the directorate general of civil aviation, domestic passenger traffic increased by 1.2 per cent y-o-y in September.

The airline commanded a domestic market share of 47.7 per cent during Q2FY20 as compared to 42.4 per cent a year ago.

It had a total cash balance of Rs 18,736 crore at the end of September 30, while its total debt at Rs 19,841 crore.

IndiGo's shares closed Thursday's session at Rs 1,666.35, up by 0.75 per cent, on the BSE. **FE**

CORPORATE RESULTS

ITC net up 36% as tax expenses fall

Kolkata: Beating market expectations, ITC on Thursday reported a robust 36.16 per cent year-on-year jump in its standalone net profit to Rs 4,023.10 crore for the second quarter ended September 30, buoyed by 44.5 per cent y-o-y lower tax expenses. Apart from lower tax outgo on the back of corporate tax cuts, the diversified conglomerate got larger benefits in terms of a massive decrease in its total tax expenses in the September quarter this fiscal, due to 're-measured' deferred tax liabilities.

The cigarette-to-FMCG-to-hotel major had posted Rs 2,954.67-crore net profit for the second quarter last fiscal. Its gross revenue from sales for the July-September period grew 5.9 per cent y-o-y at Rs 11,750.15 crore, which was below analysts' expectations.

The Kolkata-based conglomerate, in a media statement, said its deferred tax liabilities (net) as on March 31, 2019 and the estimate of tax expense for the year ending March 31, 2020 had been remeasured. **FE**

IDFC First Bank loss at ₹680 cr

Mumbai: IDFC First Bank reported a loss of Rs 680 crore due to taking an one-time impact on deferred tax asset markdown as against Rs 617 crore in the quarter ago period. The profit before tax came at Rs 100 crore, as against a loss of Rs 583 crore in the year-ago period.

"The key aspects this quarter are maiden profitability and strong growth in retail deposits and CASA addition of Rs 6,000 crore," its managing director and chief executive V Vaidyanathan said.

The bank, which has been formed with the merger of infra-focused IDFC Bank and the non-bank lender Capital First in January 2019, reduced its loan book by over Rs 5,000 crore to focus only on retail loans during the quarter, which now constitute 45 per cent of the book.

While the overall loan book has gone down, it is a more profitable growth as the retail loans are more profitable and has grown by Rs 3,400 crore last quarter, Vaidyanathan said. **PTI**

FM: Making efforts to resolve differences between ED & MCA

ENS ECONOMIC BUREAU
NEW DELHI, OCTOBER 24

While the ED is of the opinion that it can attach the property of BPSL under the Prevention of Money Laundering Act, the Corporate Affairs Ministry has been maintaining that ED can't do so as the company is under insolvency proceedings

FINANCE AND Corporate Affairs Minister Nirmala Sitharaman on Thursday said the differences between the Corporate Affairs Ministry and the Enforcement Directorate (ED) over the attachment of properties of Bhushan Power & Steel (BPSL), which is under the insolvency resolution process, would be resolved soon.

The ED has seized a portion of BPSL's assets in a money laundering case against its former promoters.

While the Corporate Affairs Ministry has held that the ED can't initiate such action when BPSL is under the insolvency process, the ED feels it has the authority to do so under the Prevention of Money Laundering Act.

"On this matter, I had some discussions. I am conscious of the fact that ED does its duty and job, and when it comes to the question of attaching such properties of people who are being pursued under the PMLA, some of the company property is also getting attached," Sitharaman said. "I had a meeting with both revenue secretary and corporate affairs secretary. We are applying our mind on it. Let's see how we resolve it. We recognised that there is an issue," she told reporters here.

The National Company Law Appellate Tribunal (NCLAT) has asked the ED to release the attached properties and directed the agency not to attach any further assets without its permission.

However, the appellate body also put the ₹19,700-crore payout by the JSW Steel to buy the debt-ridden company on hold until further orders.

Asked to comment on the government's decision on Wednesday to merge struggling state-run telecom firms BSNL and MTNL, the minister said, "We recognise the role that the BSNL and MTNL and the combined institution has to play in the country's telecommunication and connectivity". **FE**

ComMin meets exporters: Credit, IGST refund issues raised

PRESS TRUST OF INDIA
NEW DELHI, OCTOBER 24

EXPORTERS RAISED several issues such as credit and IGST refund at a meeting called by the commerce ministry on Thursday amid dip in the country's outbound shipments.

Exports contracted for the consecutive second month in September.

The meeting was chaired by Commerce Secretary Anup Wadhawan and was attended by export promotion councils.

The Federation of Indian Export Organisations said they flagged issues related to stoppage of filing of Merchandise Exports from India Scheme, problems being faced by exporters at credit front and list of risky exporters.

"These issues are impacting exports. We urged the government to take action on this," FIEO Director General Ajay Sahai said.

Trade Promotion Council of India Chairman Mohit Singla said India's export needs strategic thrust to come out of the plateaued growth.

Draghi defends easy monetary policy legacy as ECB keeps money taps on

FRANCESCO CANEPA & BALAZS KORANYI
FRANKFURT, OCTOBER 24

EUROPEAN CENTRAL Bank President Mario Draghi defended his ultra-easy monetary policy stance on Thursday as his eight-year tenure at the bank closes in exactly the same place he started: trying to prop up a perpetually ailing currency bloc.

With growth barely holding in positive territory and the outlook darkening, it was hardly the grand finale hoped for by Draghi, whose 2012 promise to do "whatever it takes" to save the euro — code for rescuing heavily indebted countries — is credited with saving the shared currency from collapse.

With inflation languishing at less than half the ECB's target and little hope for a speedy rebound, Draghi even kept the door open to more stimulus, days before he hands the reins to new ECB chief Christine Lagarde.

Despite weak growth across the euro zone, Draghi insisted the benefits of loose money policy far outweighed the risks and rejected the suggestion that a public split with policy hawks in the bank had tainted his legacy.

"I feel like someone who tried to comply with the mandate in the best possible way," Draghi, whose term has passed without a single interest rate hike, told a news conference.

"These disagreements are often made public and often they are not, so ... I have taken this as part and parcel of the ongoing debate and discussions."

While acknowledging that the bank was keeping a close watch out for any unintended consequences of ultra-low and negative interest rates, he added that they had clearly stimulated the economy through higher lending and helped boost employment. "For us it has been a very positive experience," he said. **REUTERS**

President of European Central Bank Mario Draghi (*right*) and Vice President Luis de Guindo after the former chaired his last policy meeting in Frankfurt on Thursday. *AP*

'Never give up': Draghi tells Lagarde as he leaves ECB

Frankfurt: European Central Bank President Mario Draghi told his successor on Thursday to "never give up" on propping up the euro zone economy in the face of a worsening outlook and little help from governments.

At the last press conference of his eight-year tenure, the man credited with saving the euro from collapsing kept the door open to even more easy money, days before he hands the reins over to Christine Lagarde on October 31.

With inflation languishing at less than half the ECB's target and an unprecedented revolt against his brand of monetary stimulus, it was hardly a grand finale for Draghi, whose 2012 pledge to do "whatever it takes" to save the euro quashed speculation against the bloc's most heavily indebted countries. **REUTERS**

BRIEFLY

Govt bans import of PET flakes

New Delhi: The government on Thursday banned import of PET flakes made from used PET bottles. "Import of PET flakes made from used PET bottles etc is prohibited," the Directorate General of Foreign Trade (DGFT) said in a notification. PET flakes are generally produced by recycling PET bottles and are used as raw material for a range of products.

Economy in transition phase: SBI chief

New Delhi: The economy is in a transition phase, owing to important reforms undertaken in the last few years, SBI Chairman Rajnish Kumar said, exuding confidence that the country's growth rate will be back on track.

BBB suggests C S Setty for post of SBI MD

New Delhi: The Banks Board Bureau (BBB) on Thursday recommended the name of C S Setty for the post of Managing Director of SBI. The post fell vacant after the resignation of Ansula Kant, who was appointed MD and chief finance officer of the World Bank earlier this year.

NSE launches Nifty Midcap150 Quality 50 Index

New Delhi: NSE Indices on Thursday launched a new smart beta index, Nifty Midcap150 Quality 50 Index, which will track performance of mid-cap firms based on profitability, leverage and earnings growth variability. **PTI**

Twitter tumbles as 'bugs' hit revenue growth

Washington: Twitter shares plunged on Thursday after reporting glitches that impacted its ad-targeting ability, pulling down revenue growth in the past quarter. Profit for Q3 was $37 million, a sharp drop from last year. **REUTERS**

OYO Japan to add 50 hotels by April 2020

New Delhi: Hospitality firm OYO on Thursday said its joint venture in Japan is planning to add 50 more hotels by April 2020. OYO Hotels Japan, a JV between OYO and SoftBank, has 100 hotels in the country. **PTI**

Trump again attacks Fed, says central bank 'derelict in its duties'

AGENCE FRANCE-PRESSE
WASHINGTON, OCTOBER 24

US PRESIDENT Donald Trump once again attacked the US Federal Reserve on Thursday, calling for more interest rate cuts to stimulate the American economy just days before the key policy meeting.

"The Federal Reserve is derelict in its duties if it doesn't lower the Rate and even, ideally, stimulate," he said on Twitter, a relatively mild epithet after calling policymakers "boneheads" and "pathetic."

Trump has long argued that the Fed was too aggressive about raising the benchmark borrowing rate in 2018, which it did four times that year.

Under Fed Chair Jerome Powell, the Fed has cut the rate twice this year and could do so again next week at its latest two-day meeting, although some economists are calling for a pause.

Trump's blitz of insults and criticism directed at the Fed had slowed in recent weeks, with the most recent occurring two weeks ago when he said US central bankers "don't have a clue but I do." "Take a look around the World at our competitors.

Germany and others are actually GETTING PAID to borrow money. Fed was way too fast to raise, and way too slow to cut!" Trump tweeted Thursday, pausing in his focus on the impeachment inquiry against him in Congress.

The European Central Bank left its policy interest rate unchanged on Thursday at -0.5 per cent, while the Bank of Japan — also set to meet next week — has a -0.1 per cent rate as sluggish economic growth persists.

Meanwhile, official government data and industry reports are giving mixed signals about the US economy.

Sales of American manufactured goods had a dismal September, hit hard by Boeing's woes and a protracted work stoppage at General Motors, the Commerce Department reported.

US business investment still weak; jobless claims fall

REUTERS
WASHINGTON, OCTOBER 24

NEW ORDERS for key US-made capital goods fell more than expected in September and shipments also declined, a sign that business investment remains soft amid the fallout from the U.S.-China trade war but other data on Thursday showed the spat has yet to have much effect on the overall jobs market.

The Commerce Department said orders for non-defense capital goods excluding aircraft, which are seen as a measure of business spending plans on equipment, fell 0.5 per cent last month on less demand for transportation equipment, motor vehicles and parts, and computers and electronic products.

The data for August was also revised down to show core capital goods orders falling 0.6 per cent instead of declining 0.4 per cent as previously reported. Economists polled by *Reuters* had forecast core capital goods orders dipping 0.2 per cent in September.

US Treasury prices rose following the report.

China buys 264,000 tonnes of soybeans from US: Govt data

REUTERS
WASHINGTON, OCTOBER 24

This marked the first US government confirmation of soybean sale to the top buyer of the oilseed since President Donald Trump said on October 11 that China will buy up to $50 bn in American farm products as part of a trade deal

PRIVATE EXPORTERS reported the sale of 264,000 tonnes of US soybeans to China for delivery in the 2019/20 marketing year, the US Agriculture Department said on Thursday, amid hopes for a partial trade deal between the world's two largest economies.

That marked the first US government confirmation of a soybean sale to the top buyer of the oilseed since President Donald Trump said on October 11 that China would buy up to $50 billion in American farm products as part of a trade agreement.

An earlier USDA report showed total US soybean export sales of 475,200 tonnes, including just 68,300 tones to China in the week ended October 17. Analysts' forecasts for the weekly report had ranged from 800,000 tonnes to 1.6 million tonnes.

A *Bloomberg* report said China was willing to buy $20 billion of US farm goods in the first year of a trade deal.

Beijing on Tuesday offered major Chinese and international soybean processors waivers that would exempt the companies from steep tariffs on imports of up to 10 million tonnes of US soybeans, according to two people briefed on the matter.

USDA has confirmed sales of about 6 million tonnes of soybeans to China since the marketing year began on Sept. 1. That compares with cancellations of 431,000 tonnes in the comparable period of 2018 and about 8.4 million tonnes in the comparable period of 2017, before the trade war began.