

Weekly Economic Bulletin

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News Feature

IIP growth raises hopes of recovery

Industrial output grew the most in 22 months to 10.4 per cent in August, indicating a steady turnaround in the economy but also raising worries that the government and the central bank would roll back fiscal and monetary stimulus measures.

Output at factories, utilities and mines, which account for about 17 per cent of GDP, exceeded economists' expectations of a 9.7 per cent increase and was significantly higher than 1.7 per cent in the same month last year, causing some analysts to attribute this year's performance to the low base effect.

Most, however, also supported the official claim that the impressive IIP figures were due to the trickle-down effect of the government stimulus packages, though the strength of the private sector demand remained uncertain.

The central bank cut interest rates six times between October and April and the government reduced taxes on consumer products and imports, together providing a stimulus worth more than 12 per cent of India's GDP.

"The good IIP numbers are a result of stimulus packages. These numbers were anticipated," said Ajay Shankar, secretary, department of industry policy and promotion.

Finance Minister Pranab Mukherjee termed it as a good sign of recovery. "We are hoping that when the final figure of second quarter will be available, there will be some higher growth so that we can make up even higher growth in the third and fourth quarters." The economy grew 6.1 per cent in the first quarter of this year, exceeding most analysts' expectation.

Expressing the possibility of sustained growth in industrial production from now on, Finance Secretary Ashok Chawla said, "We expect the trend to continue and expect better numbers in September."

Reacting to the news, the Bombay Stock Exchange's 30-share index rose 384 points or 2.31 per cent to close above the 17,000 mark.

Other signs

The August IIP numbers appear to confirm signals of an upturn emerging from other indices, such as the HSBC India Manufacturing Purchasing Managers Index, based on data compiled from monthly replies to questionnaires sent to purchasing executives. An index above 50 implies expansion and the index has indicated this for the last few months, though the rate of improvement in August and September has slowed over that of July.

"The purchasing managers index indicates new orders and rise in production. An inventory adjustment effect will also boost production, with many firms having run down stocks earlier this year in anticipation of a prolonged downturn that looks increasingly unlikely for

many sectors,” said Nikhilesh Bhattacharyya, associate economist with Moody’s Economy.com.

The steady upturn in IIP was also preceded by rising business confidence According to the CII M-Ascon survey of the manufacturing industry for the April-June period — the latest data available — 10.4 per cent of the 77 sectors reporting production were in the excellent growth category (more than 20 per cent), compared to 7 per cent in the same period last year.

<http://www.business-standard.com/india/news/iip-growth-raises-hopesrecovery/373106/>

Overseas News

FDI inflow up 40.37% in August

Despite a slowdown in the economy, India saw an impressive 40.37% jump in the flow of foreign direct investment (FDI) into the country in August over the same month last fiscal, latest data released by the central bank showed.

FDI inflow, which includes equity, project approvals by the government and the Reserve Bank of India, as well as reinvested earnings, was \$3.27 billion in August, compared to \$2.33 billion in the like month last fiscal.

Portfolio investments including capital generation through global de-pository receipts and foreign institutional investments grew 56.15% to \$926 million during August from \$593 million in the corresponding month last fiscal.

However, FDI inflows during April-August this fiscal shrunk 3.43% to \$14.14 billion from \$14.65 billion in the corresponding period last year.

The first five months of this fiscal saw portfolio investments inflow at \$11.27 billion, while during the like period last fiscal, the country registered an outflow of \$4.07 billion.

<http://economictimes.indiatimes.com/news/economy/finance/FDI-inflow-up-4037-in-August/articleshow/5121865.cms>

Forex reserves up \$1.52 billion

The country’s forex reserves rose by \$1.52 billion to \$281.9 billion in the week ended October 9, the Reserve Bank of India (RBI) said in its weekly statistical supplement.

While foreign currency assets climbed \$1.48 billion to \$264.9 billion, gold reserves were unchanged at \$10.3 billion, the RBI said. Special drawing rights with the International Monetary Fund (IMF) increased by \$35 million to \$5.24 billion, while reserves with the IMF rose by \$9 million to \$1.37 billion. The rupee has advanced 0.2% this week to 46.31 against the dollar close as against 46.23. It had touched an intraday high of 45.75. Going forward, there are expectations of rupee appreciation against the dollar, say analysts.

Traders noted that going forward; the rupee may weaken against the dollar if the latter stays firm against the euro. Dollar demand from oil companies and other importers may also weigh on the rupee. At the same time, rupee will also take cues from the domestic share market. Abheek Barua, chief economist with HDFC Bank believes that the appreciation bias in the rupee will continue.

“ECB flows, FDI, trade credit and other debt flows will also play a critical role in determining the currency’s direction and momentum. Debt inflows in particular could pick up given the emergence of the differential monetary policy stance adopted by central banks in the developing world as against the advanced countries,” he said.

Barua expects the rupee to trade in the range of 46-47.20 in the near-term and move to a trading range of 45-46 by December 2009.

“As long as the dollar is weakening against other currencies, the rupee is bound to strengthen,” said S Srinivasa Raghavan, vice president and head of treasury with IDBI Gilts. Raghavan expects rupee to trade at 45-45.50 levels in the near term.

<http://www.financialexpress.com/news/forex-reserves-up-1.52-billion/529961/>

Trade News

India-Argentina trade to touch \$3 bn by 2012

India and Argentina announced relaxation in their visa regimes for business visitors as the two emerging economies seek to more than double two-way trade in the next three years.

Prime minister Manmohan Singh and Argentine President Cristina Fernando de Kirchner also signed four other memoranda of understanding, which includes an agreement in civil nuclear cooperation.

The two countries have set a trade target of \$3 billion by 2012 from \$1.3 billion in 2008. An agreement on easing sanitary and phyto-sanitary standards, which govern the trade in agriculture and plant items, will also be reached soon said a joint statement released after the meeting. The statement said that efforts would also be made to facilitate entry of Argentine agricultural and agro-industrial products into India and the entry of Indian pharmaceutical products into the Latin American nation.

Ashok Leyland and Argentina Cirigliano also signed a deal for production of trucks and buses based on Indian technology. An MoU between Ficci & LA Union Industrial, Argentina, was also inked to maintain and further mutual cooperation and understanding for the purpose of promoting the development of business relations between the two nations.

<http://www.financialexpress.com/news/indiaargentina-trade-to-touch-3-bn-by-2012/529097/>

Investment, services top talks with Asean team

Officials from India and Asean, a 10-member regional grouping of southeast Asian countries, kicked off a fresh round of talks on liberalising markets in service and investment to complement the bilateral free trade agreement on goods signed recently between the sides.

India with a booming services sector expects to gain substantially from the proposed pact, especially in terms of better market access for its professionals and more openings for its banks and insurance companies. The three days meet, which started in New Delhi, will look at all areas on services and investment that the two sides are interested in.

“We are happy that the Asean countries have come to negotiate a deal on services and investment close on the heels of completion of the agreement on goods. We hope to conclude the talks as soon as possible,” said a commerce department official.

The free trade agreement on goods will come into effect in January 2010, he said.

It may, however, take much longer than two-and-a-half months for the sides to conclude the services and investment talks as it includes a large number of sectors and categories.

In fact, the agreement on goods came after six years of negotiations. Initially, the entire comprehensive economic cooperation agreement including goods, services and investment was being negotiated together, but the latter two had to be suspended to speed up talks in goods.

In services, India is seeking access to its professionals in countries with a sizeable English speaking population such as Malaysia and Singapore to begin with. India wants to sign mutual recognition agreements (MRAs) with the Asean countries for recognising qualifications in areas like medicine, nursing, architecture, accounting and teaching.

The country is also seeking more opportunities for its financial services sector, including banking and insurance, in the Asean countries.

Asean is India’s fourth largest trading partner after the EU, the US and China. The members of Asean are Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Thailand, Singapore and Vietnam.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/Investment-services-top-talks-with-Asean-team/articleshow/5117577.cms>

Sectoral News

Auto sector could hit double digits on the way to a new milestone

The automobile sector is poised to break its boom year sales record of 10 million units this financial year, thanks to the stimulus packages, new launches and festive discounts.

Bolstered by a 21% rise in passenger car sales in September, preceded by five consecutive months of growth, industry body Society of Indian Automobile Manufacturers (Siam) projected double-digit growth for the sector this year. The projection earlier was at 4-5%.

The sector had flat growth, of 0.71%, last year.

Though Siam did not give a growth figure, assuming a conservative growth of 10%, the industry would end the year with overall sales of around 1,06,95,730 units, against 97,23,391 units in 2008-09. This would be higher than the record domestic sales of 1,01,23,988 units marked in 2006-07. The current year could set a new record in sales.

Double-digit growth would not be hard for the sector, since auto companies have on an average sold 9.6 lakh units per month in the first half of this financial year. To reach the 10% mark, they need to sell around 8.1 lakh units per month in the remaining six months.

During April-September, automakers clocked 14.5% growth in sales at 57,82,920 units, compared with 50,50,279 units in the first half of last financial year. Sales in September were up 9.6% at 10,92,262 units.

“The main factors driving the growth are the stimulus packages and the reduction in interest rates. Now, we are cautiously optimistic about the future, and hopeful of a double-digit growth this fiscal,” Dilip Chenoy, director general, Siam, said.

Arvind Saxena, senior vice-president, Hyundai Motor India, supports the view. “If the growth momentum of September continues in October, which is expected to be a strong festive month, the industry would grow by double-digits in 2009”, he said.

However, market leader Maruti Suzuki India remains cautious about how the industry would evolve in the remaining half of 2009-10. “Industry is certainly doing well but what numbers we do in the last quarter will play a significant role in determining the overall growth of the current financial year,” RC Bhargava, chairman, Maruti Suzuki India said, adding that good numbers of any single month is too little to project the overall growth.

<http://www.financialexpress.com/news/auto-sector-could-hit-double-digits-on-the-way-to-a-new-milestone/528689/>

FMCG industry, analysts bullish on double-digit growth in Q2

The Rs 86,000-crore fast moving consumer goods (FMCG) industry in India is expected to register a double-digit growth both by value and volume in the second quarter of 2009-10, say industry analysts. “The industry is expected to register a 14% sales growth in Q2 2009-10 compared to the corresponding period last year. There will be strong growth both by value and volumes this quarter,” said Akhil Kejriwal, an analyst with Enam Securities.

With the softening of commodity prices, the benefits of lower excise and on the back of a low base, analysts expect a margin expansion for FMCG companies. “We expect strong PAT growth for Godrej Consumer Products (up 59% YoY), Nestle (up 34% YoY), Colgate

(up 30% YoY) and ITC (up 17% YoY). However, we expect muted performance for HUL (up 7.3% YoY) and Britannia," said an analyst based in Mumbai. While lower input costs and excise benefit will result in margin expansion for many companies, the rise in sugar prices will have a negative impact on the gross margin of confectionary makers and biscuit companies in India.

According to Akhil Kejriwal, the impact of the rise in sugar prices will be evident only in Q3 FY10; in Q2, the impact will not be quantifiable. However, the quantum of margin expansion will be higher for many FMCG companies like Godrej Consumer Products and Colgate.

FMCG industry captains seem to share the optimism. For one, Adi Godrej, chairman of the Godrej Group is upbeat. "The FMCG sector in India is doing well. And I expect it to continue to do well," he said.

Said Amit Burman, vice-chairman, Dabur India, "The growth seems to be good for the FMCG industry in Q2 2010--both by value and volume. Margins will improve in Q2 and the growth rate will be around 12-15%. Going forward, margins will be under pressure due to high input and raw material cost."

According to Harsh Mariwala, chairman, Marico Group, the Indian FMCG industry will sustain its growth momentum in Q2. "The Q2 performance will be on the lines of the first quarter," he added. India's FMCG sector is the fourth largest sector of the economy and creates employment for more than three million people in downstream activities.

<http://www.financialexpress.com/news/fmcg-industry-analysts-bullish-on-doubledigit-growth-in-q2/528656/>

GSM numbers rose by 8.6 mn in September

Subscribers to mobile services using the GSM technology grew by 8.59 million in September, taking the total GSM numbers to 344.4 million, a growth of 2.6 per cent over August, says the latest data released by the Cellular Operators Association of India (COAI), the apex body of GSM operators.

According to COAI, Bharti Airtel remained in front with 2.5 million additions, taking its total GSM subscriber base to 110.5 million, with an overall marketshare of 32.08 per cent in the nine-player market. Vodafone is next, adding 1.97 million GSM subscribers in September, taking its overall tally to 82.8 million subscribers. The government's Bharat Sanchar Nigam Ltd gained 1.3 million subscribers, while Idea Cellular also added 1.3 million subscribers in September.

<http://www.business-standard.com/india/news/gsm-numbers-rose-by-86-mn-in-september/373123>

News Round-Up

Morgan Stanley forecasts strong earnings growth for Indian cos

Indian companies could post strong earnings growth over the next 12 months, driven by a sharp recovery in industrial growth and rebound in margins, led by cost-cutting and lower raw material prices, said Morgan Stanley, in a recent note. The investment bank has raised its Sensex target for December 2010 to 19400 and upgraded the benchmark's earnings growth estimates.

"We are revising our base-case BSE Sensex top-down earnings growth forecast from +10% and +20% in F2010 and F2011, respectively, to 15% and 23%," Morgan Stanley analysts Ridham Desai and Sheela Rathi said in a recent note. "The consensus is expecting 5% and 20% growth for the BSE Sensex for FY10 and FY11, respectively."

The investment bank sees broad market earnings growth to accelerate faster than the narrow market (Sensex and Nifty companies). "We expect broad market earnings growth to average 20% and 25% in FY10 and FY11, respectively," it said.

India's industrial output in August registered a 10.4% jump from the same period a year ago, recording its highest growth since October 2007.

Market watchers interpret this economic data as the strongest indication of a revival of economic growth.

"Revenue growth seems to have bottomed out, given our view that industrial growth is likely to recover sharply in the coming months. The strength of the recovery could bear upside, depending on execution of policy reforms," Morgan Stanley said.

Sensex closed at 17323, over 110% above its lows in early March this year, driven by FII inflows worth \$13 billion.

"Our Dec-2010 target for the Sensex suggests an upside of 13% (as on October 15), reflecting slower pace of gains after a stellar performance over the past six months," it said.

Morgan Stanley said Indian equities could be volatile in the near term, as 'a lot' of the next six months' projected growth is already priced into share prices. But it believes investors should use the volatility to buy Indian shares, on grounds that companies' growth outlook for the next 12-18 is still not priced into equities.

"We reckon that Indian equities could to be in a sweet spot with low institutional ownership (coming off five-year lows), strong liquidity (policy makers are still reticent to take away stimulus), prospects of growth and earnings upgrade (indeed, we are at the start of earnings growth cycle), strong corporate balance sheets, and stable politics," Morgan Stanley added.

<http://economictimes.indiatimes.com/articleshowarchive.cms?msid=5137437>