

India Macro View

Delhi-Mumbai Trip Tales: Fact Finding, Not Hiding...

As part of an investor trip, we met with government, think-tanks and market analysts.

- **Growth – Muted Expectations...**— Most participants/officials we met expect FY14 growth to remain subdued in the 5.5%-6.5% range (Citi 5.7%): slowdown largely a consequence of "not having anticipated supply side issues" and "institutional/regulatory deficits", stalling projects. However, it's not all grim; project completions remain high (see pg 2), and quite a few of the stalled projects were "bad proposals" to start with.
- **...Getting it Back on Track, A Top Priority** – Consensus suggests that (4.5% 3QFY13 GDP) is the bottom, thanks to some policy momentum and easing commodity prices. However, challenges remain – (1) continued decline in new project intentions and (2) weakening consumption, and consequently moderating 'growth potential' levels; now lower in the 6.25%-7.25% range. There could be some upside 'delta' (or a more modest 'epsilon') due to the Cabinet Committee on Investments (CCI). While the stalled project pipeline stands at ~US\$150bn, CCI has reportedly cleared US\$20bn.
- **External: Structural "imports" likely to keep deficits elevated; INR range-bound** – Universal view that (supply-side issues + energy prices/demand (Oil & coal) + gold imports) = Record Current Account Deficits (CAD). But for policy makers, recent commodity tailwinds are not leading to CAD complacency, and thus efforts to increase capital flows (especially debt) are likely to continue. The INR consensus moves up a bit Rs53-55/US\$ from the recent Rs54-56 level (See [Europe Trip Tales](#))
- **Inflation and Rates: Both Lower in FY14** – There's consensus that WPI will be lower (falling commodities & pricing power). And CPI (currently at 10.4%) should also head lower on account of (1) Winter harvests and monsoon (2) Policy related measures – food stocks, pricing. And rates should fall to the tune of 50-100bps. (Citi: 50bps)
- **Fiscal: Consensus on 4.8% target; Reforms some time away** – There's confidence that the FM will meet the 4.8% fiscal deficit red-line. But there's disappointment that "competitive politics" could result in a delay in tax reforms (GST, DTC); that there would be the incremental cost of the food security bill (0.25%-0.5% of GDP) – albeit the pain would be offset by a lower fuel subsidy
- **Politics: Possibility of Early Elections? Scenarios** – Experts put the probability of an early election at 25%-30%; with 4 prominent scenarios; (1) BJP led coalition without announcing Narendra Modi (NAMO) as the PM candidate (2) Non-Congress non-BJP coalition with the outside support from Congress (3) BJP coalition with NAMO as its PM candidate and (4) Congress led government. Two interesting comments were (a) the next election could be viewed as a contest between "secular" v/s "corruption" rather than one of leaders and (b) regionalization of Indian politics that may have brought "instability at the centre" has also led to the growth of the lower classes.

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With thanks to

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WHAT'S INSIDE – KEY TAKEAWAYS

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Takeaways (1) Growth, Projects and CCI

GROWTH : UNLOCKING STALLED PROJECTS – A KEY FOCUS

As mentioned in our earlier notes, the key reason for the rise in stalled projects is due to

(a) Fuel Supply: lack of sufficient coal/gas;

(b) Clearances: land acquisition, environmental issues

Trends in projects stalled could see some respite due to recent reforms and continued functioning of the CCI

PROJECTS COMPLETED

Trends in completed projects currently remain healthy, due to earlier projects coming on stream

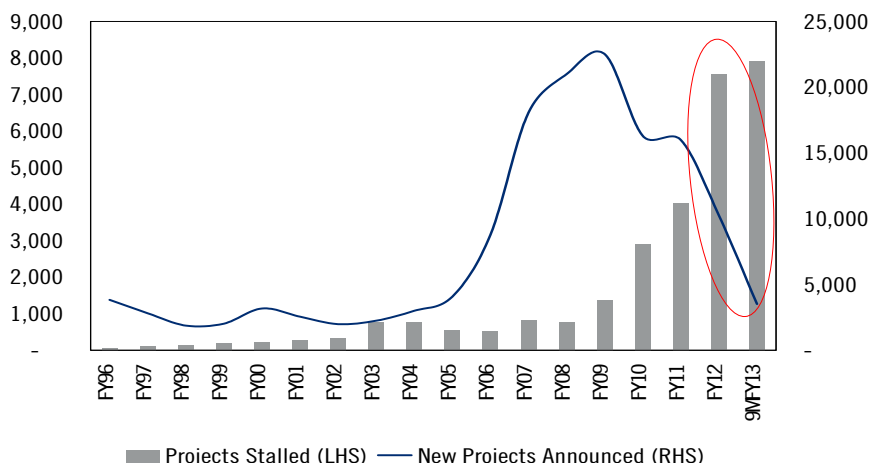
Going forward, this trend could come off as project intentions have fallen.

CCI – MAKES SOME HEADWAY

The CCI has taken key steps in the last three months to speed up high-value stalled projects.

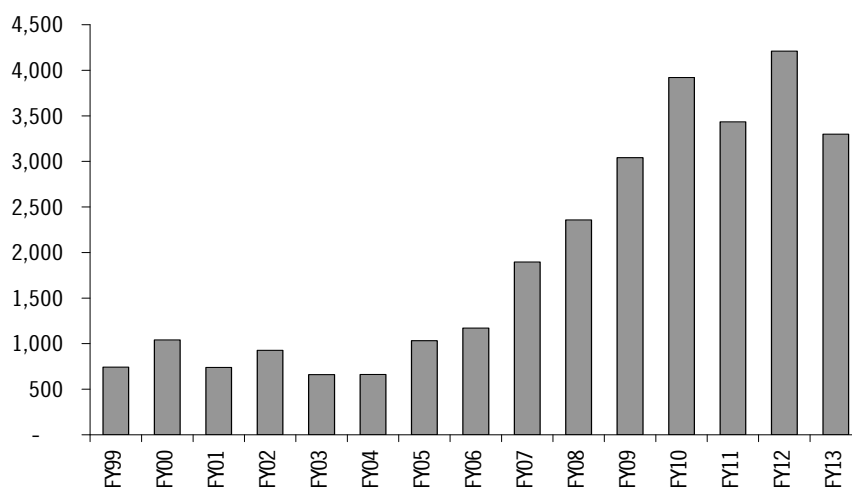
It has helped resolve clearance and security issues which slowed projects in important sectors like Oil and Gas, Mining, Roads, Coal and Power

Figure 1. Projects Stalled vs New Project Announcements (Rs bn)



Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Research

Figure 2. Trends in Projects Completed (Rs bn)



Source: <http://capex.cmie.com> (Centre for Monitoring Indian Economy), Citi Research

Figure 3. Cabinet Committee on Investments – Progress so Far

Sector	Progress
Oil and Gas	Cleared 25 high-value oil blocks in April, and 5 in March while resolving objections by Ministry of Defense
Mining	Introduced more favorable Environmental Clearance regulations for capacity-expansion and renewal of mining lease
Roads	De-linking Environment and Forest clearances for linear projects
Coal	Working towards fast-tracking clearance approvals for 12 mining projects and fixing 1-month time-frame for processing clearance-related cases
Power	Cleared 13 power projects of ~Rs 330bn

Source: PIB, News Reports; Citi Research

Takeaways (2) Imports* – Oil, Coal and Gold

*For detailed analysis on this, pls see pg 4-7 [Macroscope- BOP: A Welcome POP](#)

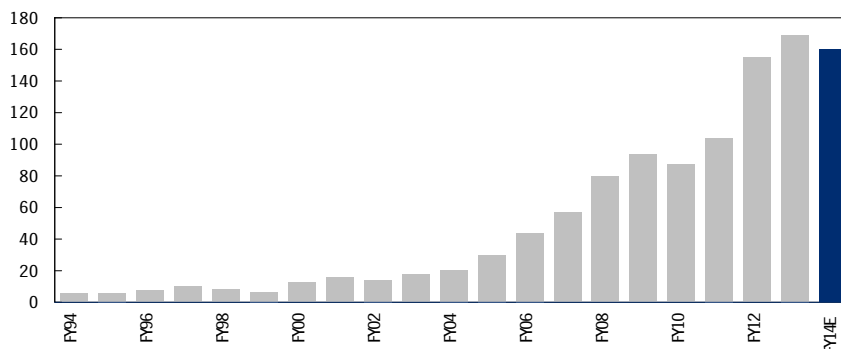
OIL IMPORTS

India imports 80% of its crude oil requirements.

Oil comprises 34% of its import bill.

Taking into account petro product exports, a US\$1/bbl increase in oil prices would increase the trade deficit by US\$900m

Figure 4. Trends in Oil Imports (US\$bn)



Source: RBI; Citi Research

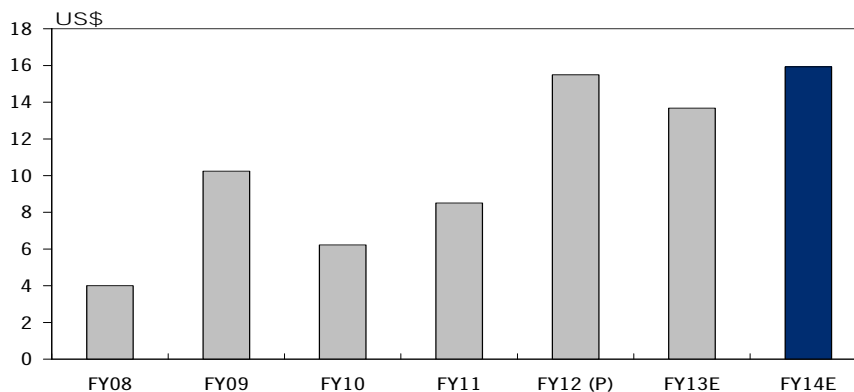
COAL IMPORTS

India's coal requirements are ~832 tonnes

Domestic production is ~604 tonnes

Imports are ~21% of total requirements, despite India having amongst the largest reserves of coal

Figure 5. Trends in Coal Imports (US\$bn)



Source: Ministry of Commerce; Ministry of Coal; Citi Research

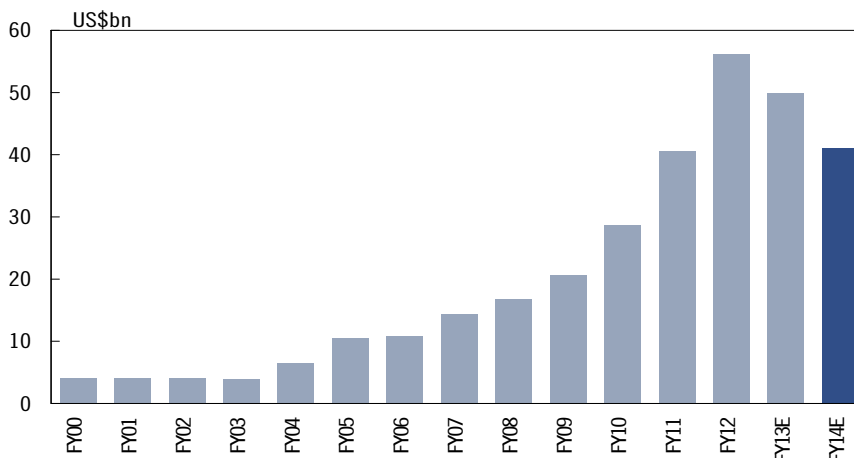
GOLD IMPORTS

Gold comprises 10% of imports

Jewellery demand is ~75% while Investment demand is ~25%

While cultural factors will likely limit the drop in jewellery demand, key to watch is if the drop in investment demand more than offsets an increase in jewellery demand

Figure 6. Trends in Gold Imports (US\$bn)



Source: RBI; Citi Research

Takeaways (3) Inflation and Rates

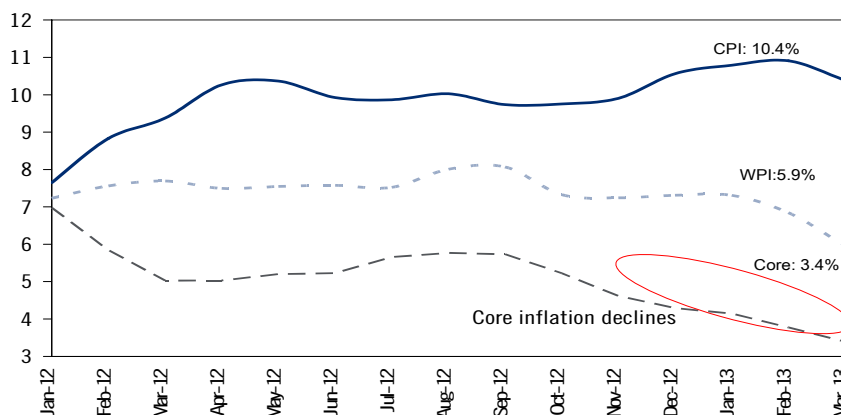
INFLATION : WPI and CPI

Latest WPI: 5.96%; Core WPI: 3.4% ; CPI: 10.4%

While certain elements of inflation are sticky, given that ~57% of India's WPI basket is tradable and provided the INR stays stable, lower commodity prices bode well for headline WPI.

CPI is expected to also trend lower due to good winter harvests, normal monsoons and policies regarding stocks and prices.

Figure 7. Trends in Headline CPI, Headline WPI, and Core WPI



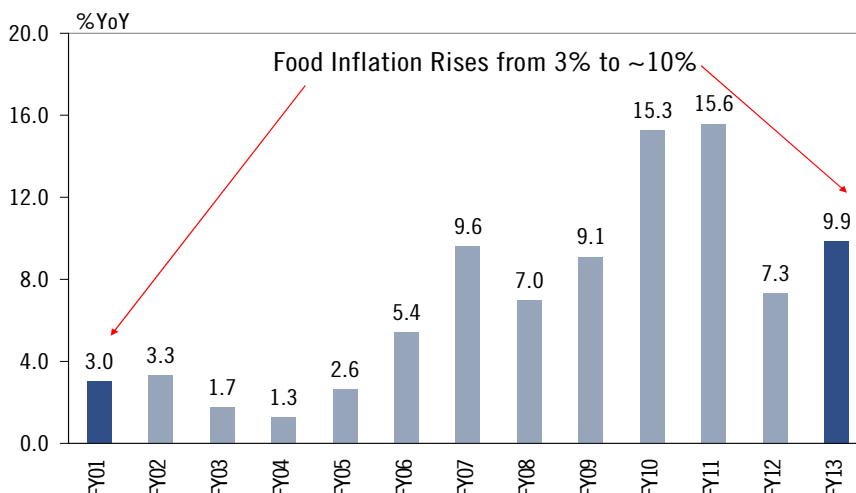
Source: Office of the Economic Advisor, Citi Research

FOOD PRICE INFLATION

In a recent paper, the Committee on Agricultural Costs and Prices (CACP) attributed the persistence of food inflation averaging ~10% since FY08-09 to (1) rising deficits, (2) rising farm wages and (3) transmission of global food inflation

Experts we met attributed additional factors including (1) rural wages not being commensurate with any increase in productivity (2) diversion of rural labor for urban construction and (3) continuous rise in minimum support prices for agri products and (4) higher land prices.

Figure 8. Trends in Food Inflation (%)



Source: Office of the Economic Advisor, Citi Research

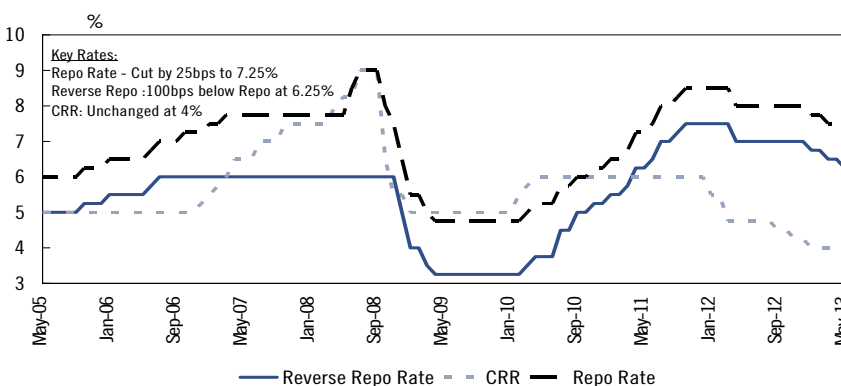
INTEREST RATES – Expect 50bps Cuts

RBI has been "talking hawkish"...

However, its actions have been less hawkish with rates being cut by 75bps in 2013 (50bps in 2012)

Going forward, we expect the RBI to ease by a further 50bps in FY14, though timing will be data dependent

Figure 9. Trends in Key Policy Rates (%)



Source: RBI: Citi Research

Statistical Snapshot

Figure 10. India – Macroeconomic Summary (FY01-FY14E)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013E
Fiscal Year to 31 March	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
National Income Indicators*														
Nominal GDP (Rs bn)	21,840	23,676	25,500	28,617	32,422	36,934	42,947	49,871	56,301	64,778	77,953	89,749	100,281	113,017
Nominal GDP (US\$ bn)	478	493	528	623	720	834	950	1,241	1,224	1,367	1,710	1,866	1,857	2,055
Per Capita GDP (US\$)	469	474	500	582	662	754	847	1,090	1,061	1,168	1,442	1,552	1,522	1,635
Real GDP growth (%)	4.3	5.5	4.0	8.1	7.0	9.5	9.6	9.3	6.7	8.6	9.3	6.2	5.0	5.7
Agriculture growth (%)	0.0	6.0	-6.6	9.0	0.2	5.1	4.2	5.8	0.1	0.8	7.9	3.6	1.8	3.0
Industry growth (%)	6.0	2.6	7.2	7.3	9.8	9.7	12.2	9.7	4.4	9.2	9.2	3.5	3.1	4.4
Services growth (%)	5.4	6.9	7.0	8.1	8.1	10.9	10.1	10.3	10.0	10.5	9.8	8.2	6.6	7.0
By Demand * (%YoY)														
Consumption	3.0	5.3	2.3	5.4	2.3	8.6	7.9	9.3	7.6	8.2	8.1	8.1	4.1	5.7
Pvt Consumption	3.4	6.0	2.9	5.9	2.1	8.5	8.7	9.2	7.1	7.1	8.6	8.0	4.1	5.5
Public Consumption	0.9	2.3	-0.4	2.6	3.4	8.9	3.8	9.6	10.4	13.9	5.9	8.6	4.1	7.0
Gross Fixed Capital Formation	0.0	7.4	6.8	13.6	20.7	16.2	13.8	16.2	3.5	7.7	14.0	4.4	2.5	4.0
Cons; Invst, Savings ** (%GDP)														
Consumption	78.5	78.9	77.2	75.0	70.1	69.2	68.0	67.2	68.6	69.1	67.2	68.0	68.7	69.2
Gross Capital Formation	23.8	22.3	24.6	26.9	32.8	34.7	35.7	38.1	34.3	36.3	37.0	35.4	35.3	35.7
Gross Domestic Savings	22.8	22.6	25.4	28.7	32.4	33.4	34.6	36.8	32.0	33.7	34.0	30.8	29.9	30.5
Real Indicators (%YoY)														
Cement dispatches (domestic)	-1.9	9.8	8.7	5.8	8.1	10.1	10.2	9.8	8.5	11.2	5.2	7.0	8.0	9.0
Commercial vehicle sales	-11.9	-4.5	40.4	36.2	22.4	10.1	33.3	4.2	-21.4	39.2	27.0	19.5	-1.9	12.9
Car sales	-5.3	3.2	5.3	27.2	17.8	7.7	20.7	12.1	0.3	25.7	29.3	3.9	2.4	8.0
Two-wheelers	0.7	15.3	15.8	11.3	15.7	13.6	11.5	-7.8	2.7	25.9	25.8	13.9	2.7	12.5
Diesel consumption	-3.4	-3.7	0.3	1.2	6.9	1.4	6.7	11.1	8.5	8.9	6.5	8.0	8.0	8.0
Mobile Tele density	0.3	0.6	1.3	3.1	4.8	8.2	14.1	22.0	33.0	48.5	66.8	75.1	79.0	80.0
Monetary Indicators (% YoY)														
Money supply	15.9	16.0	16.1	13.0	14.0	15.9	20.0	22.1	20.5	19.2	16.0	15.8	13.4	17.0
Inflation – WPI (Avg)	7.1	3.6	3.4	5.5	6.5	3.7	6.5	4.8	8.0	3.6	9.6	8.8	7.4	5.5%-6
CPI (Avg)	3.7	4.3	4.1	3.8	3.9	4.2	6.8	6.2	9.1	12.3	10.5	8.4	10.2	8.5-9
Bank credit growth	17.3	15.3	23.7	15.3	30.9	37.0	28.1	22.3	17.5	16.9	21.5	17.0	14.1	15.0
Deposit growth	18.4	14.6	16.1	17.5	13.0	24.0	23.8	22.4	19.9	17.0	16.0	13.5	14.3	13.5
Fiscal Indicators (% GDP)														
Centre's fiscal deficit	-5.4	-6.0	-5.7	-4.3	-3.9	-4.0	-3.3	-2.5	-6.0	-6.5	-4.8	-5.7	-5.2	-4.8
State fiscal deficit	-4.0	-4.0	-3.9	-4.2	-3.3	-2.5	-2.1	-1.4	-2.3	-2.9	-3.2	-2.3	-2.1	-2.2
Combined deficit (Centre+State)	-9.2	-9.6	-9.2	-8.2	-7.2	-6.5	-5.4	-4.0	-8.3	-9.4	-8.0	-8.1	-7.3	-7.0
Off Balance Sheet Items						-0.5	-0.9	-0.6	-1.7	-0.2				
Combined liabilities (dom+ext)	82.6	87.2	90.7	90.0	88.8	84.6	79.9	76.1	76.8	75.5	69.6	69.1	68.3	68.3
External Sector (% YoY)														
Exports (US\$bn)	45.5	44.7	53.8	66.3	85.2	105.2	128.9	166.2	189.0	182.4	256.2	309.8	303.6	333.9
% YoY	21.1	-1.6	20.3	23.3	28.5	23.4	22.6	28.9	13.7	-3.5	40.4	20.9	-2.0	10.0
Imports (US\$bn)	57.9	56.3	64.5	80.0	118.9	157.1	190.7	257.6	308.5	300.6	383.5	499.5	507.0	527.3
%YoY	4.6	-2.8	14.5	24.1	48.6	32.1	21.4	35.1	19.8	-2.6	27.6	30.3	1.5	4.0
Trade deficit (US\$bn)	-12.5	-11.6	-10.7	-13.7	-33.7	-51.9	-61.8	-91.5	-119.5	-118.2	-127.3	-189.8	-203.4	-193.4
Invisibles (US\$bn)	9.8	15.0	17.0	27.8	31.2	42.0	52.2	75.7	91.6	80.0	79.3	111.6	108.2	108.5
Current Account Deficit (US\$bn)	-2.7	3.4	6.3	14.1	-2.5	-9.9	-9.6	-15.7	-27.9	-38.2	-48.1	-78.2	-95.2	-84.9
% to GDP	-0.6	0.7	1.2	2.3	-0.3	-1.2	-1.0	-1.3	-2.3	-2.8	-2.8	-4.2	-5.1	-4.1
Capital Account (US\$bn)	8.8	8.6	10.8	16.7	28.0	25.5	45.2	106.6	6.8	51.6	63.7	67.8	92.6	91.6
% GDP	1.9	1.7	2.1	2.7	3.9	3.1	4.8	8.6	0.6	3.8	3.7	3.6	5.0	4.5
Forex Assets (excl gold) (US\$bn)	39.6	51.0	71.9	106.1	135.1	145.1	191.9	299.1	241.6	252.8	273.7	260.9	258.2	264.9
Months of imports	8.2	10.9	13.4	15.9	13.6	11.1	12.1	13.9	9.4	10.1	8.6	6.3	6.1	6.0
External Debt (US\$bn)	101.3	98.8	104.9	112.7	134.0	139.1	172.4	224.4	224.5	260.9	305.9	345.5	376.3	391.3
Short Term Debt (US\$bn)	3.6	2.7	4.7	4.4	17.7	19.5	28.1	45.7	43.3	52.3	65.0	78.2	91.9	96.9
Exchange Rate														
US\$/INR - annual avg	45.7	48.0	48.3	45.9	45.0	44.3	45.2	40.2	46.0	47.4	45.6	48.1	54.0	55.0
% depreciation	5.3	5.0	0.6	-5.0	-2.0	-1.6	2.0	-11.1	14.4	3.0	-3.8	5.5	12.3	1.9
US\$/INR – Year end	46.5	48.9	47.5	43.6	43.8	44.6	43.6	40.1	50.7	44.9	44.6	50.3	54.3	56.3
% depreciation	6.7	5.2	-2.9	-8.2	0.3	2.0	-2.3	-8.0	26.4	-11.4	-0.7	12.8	8.0	3.7

** At current prices.

Source: CSO, RBI, Ministry of Finance, Citi Research Estimates

Appendix A-1

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