CARE's Survey on the Indian Economy: FY15

The economy is half way through FY15. Business and investor sentiments have been rather positive from the start of this fiscal year, which almost coincided with the new government coming into power at the Centre. As the economy enters its second leg for the fiscal year, we conducted a Survey to gauge the expectations from the economic report card for FY15.

The Survey sample has 88 responses from various segments.

- Maximum responses were from the 'services' sector at 57. Among the respondents, 21 form 'non-finance', 18 were prominent bankers and another 18 represented various financial services.
- 28% of the responses (25) were from the 'industries' sector at large.
- The residual respondents were from 'others'.

The report firstly provides an overview of the macroeconomic report card for H1 FY15.Certain important economic indicators are briefly reviewed following which the results of the Survey are reported and analyzed along with CARE's view of the same. CARE's view was presented in Indian Economy: Prognosis 2015 (published in April) available on:
http://www.careratings.com/upload/NewsFiles/Economics/Prognosis%20-%20FY15%20-%20rev.pdf.

We have altered our stance on some of these forecasts based on contemporary developments.

Indian Economy in H1 FY15

There has been much to cheer about so far in the fiscal year with higher GDP growth figure, downward trending inflation (both retail and wholesale), healthier exchange rate movement, rising stock indices and improving trade balance. Admittedly there have been certain intrinsic factors such as a high base effect from last year, existing curbs on gold imports and slide in global crude oil prices which have assisted the onset of domestic recovery in H1-FY15. The negatives have been the recent slowdown in industrial growth and weaker credit growth so far in the year.

The table below captures select economic and financial indicators in FY15 and the corresponding figures in FY14.

Table 1: Snapshot of the Economy in H1 FY15 and FY14 (%)

Indicators	FY14	FY15
GDP (Q1)	4.7	5.7
Gross Fixed Capital Formation(Q1 at current mp)	28.7	28.6
Inflation: (Average)		
CPI (Apr - Sep ’14)	9.6	7.7
WPI (Apr-Sep ’14)	5.7	4.8
IIP (Apr-Aug ’14)	0	2.8
Trade:		
Exports Growth (Apr-Sep ’14)	5.1	6.5
Imports Growth (Apr-Sep ’14)	-1.8	1.6
Trade Balance (Apr-Sep ’14)$ bn	-81.6	-70.3
Exchange Rate: Rs/$ *	13.4%	2.5%
Net FII Inflows(Apr -Oct ’14) $ bn	-4.7	24.1
FOREX Reserves(as of 3rd Oct) $ bn	277.1	311.4
Credit Growth(as of 19th Sep over March)	6.5%	2.5%
Repo Rate(as of 16th Oct)	7.50%	8%
G-Sec Yield(as of 14th Oct) (10 Years paper)	8.57%	8.41%
Sensex Movement* *(% change)*	18.4%	16.8%

Source: RBI, CSO, SEBI, NSDL, FIMMDA

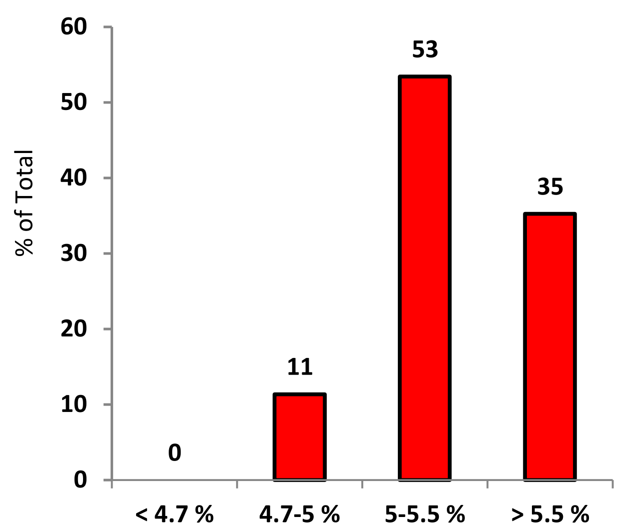
**% depreciation as of as of 14th Oct over 1st Apr in the respective years*

Survey Results

The Survey included a total of 21 questions divided within certain parameters: Economic, Industry, Monetary, Financial and External. The results of the Survey are presented through illustrative graphs along with a brief analysis of the same.

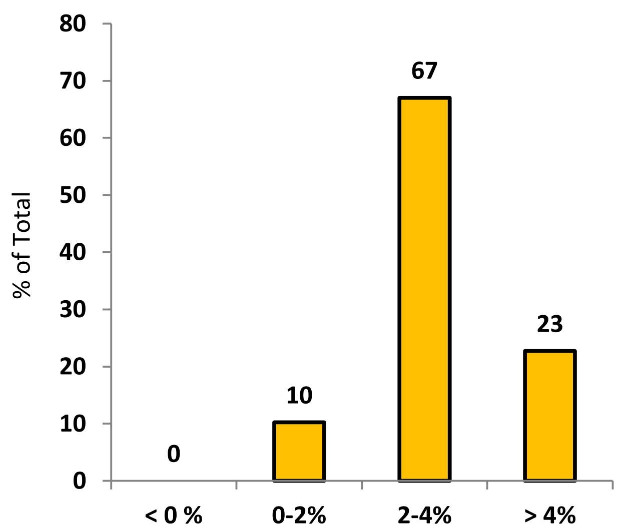
A. Macro-Economic Parameters

Exhibit 1: Expectations of GDP growth in FY15



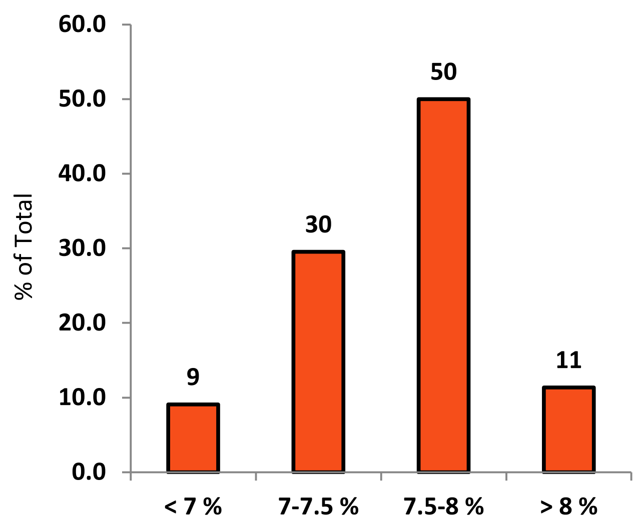
- 53% of the respondents expect GDP growth to come in between 5-5.5% in FY15 vis-à-vis 4.7% in FY14.
- A sizeable proportion of the respondents expect GDP growth to be higher than 5.5% in FY15.
- A small proportion, i.e. 11% foresees GDP growth between 4.7 and 5%.
- ***The survey results are in line with CARE's own forecast of 5.2-5.5% GDP growth in FY15.***
- Activity in the economy is expected to undergo a gradual pick up particularly in H2-FY15 driven by the festive demand and harvest season.
- Favorable statistical factors arising from last year's base effect will provide significant cushion to GDP figures in this fiscal.

Exhibit 2: Expectations of Growth in Industry in FY15



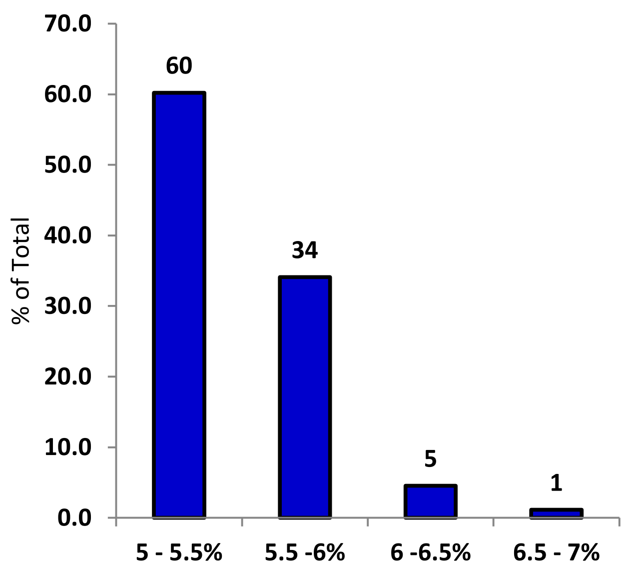
- On an optimistic note,a strong majority of 67% respondents expect industrial growth to be recorded between 2% to 4% in FY15.
- 22.7% of the respondents anticipate a significantly higher industrial growth rate of above 4% in FY15.
- Relatively fewer expect industrial growth to dip between 0-2% this fiscal.
- In FY14, GDP growth was driven primarily by a strong performance from the agriculture and services sector. However, expectations abound for a higher growth in industry in FY15.
- So far, industrial activity after being upbeat in Q1 FY15, has witnessed a slowdown in Q2 as judged by the falling Index of Industrial Production (IIP) figures.
- Hence, as is the typical characteristic, industrial activity will have to increase significantly in Q3 and Q4 to meet the market expectation.
- ***CARE's forecast remains unchanged at 3-4% in FY15.***

Exhibit 3: Expectation of CPI inflation in FY15



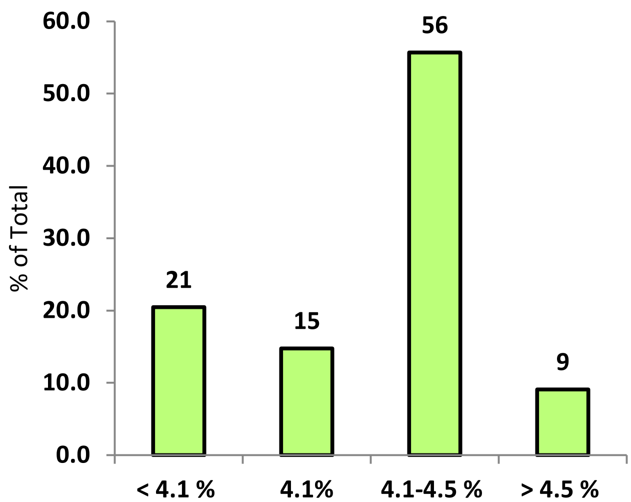
- Half of the sample expects CPI inflation to fall between 7.5-8% in FY15 compared with 9.49%in FY14.
- A sizeable proportion of almost 30% foresee the same to edge lower between 7% and 7.5% in FY15.
- The expectation of above 8% and below 7% CPI inflation is almost at the same level and relatively small at 11.4% and 9.1% respectively.
- Given that RBI has reiterated its target of 8% CPI inflation by Jan '15 and 6% by Jan '16, the general market expectation is that RBI will remain hawkish.
- There appears to be consensus that the 8% CPI inflation target of the RBI would be met quite well.
- ***Survey results are thereby in line with CARE's forecast of 7.5-8% CPI inflation by March '15***.

Exhibit 4: Expectation of WPI Inflation in FY15



- Experts across sectors foresee inflation to be lower in FY15 as 60% of the respondents expect WPI inflation to be within 5-5.5% in FY15 as opposed to 5.98% in FY14.
- A lower proportion of 34% respondents expect WPI inflation to be between 5.5% and 6% for FY15.
- While 4.5% expect WPI inflation to stand in the range of 6-6.5%, only a miniscule proportion of 1.1% respondents foresee it between 6.5% and 7%.
- CARE also expects WPI inflation to trend lower in FY15 in comparison with FY14 levels. ***The expectations of the majority as gauged by the Survey are consistent with CARE's forecast of 5-5.5% WPI inflation in FY15.***

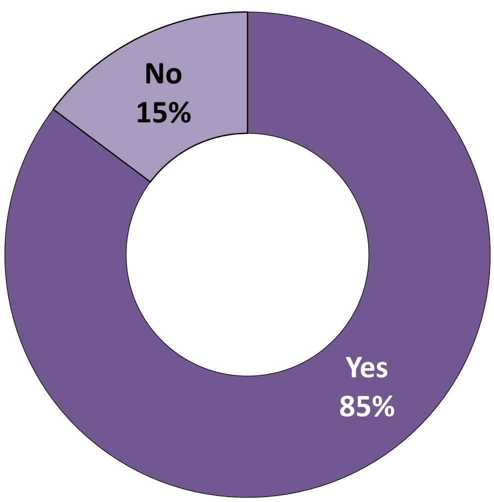
Exhibit 5: Expectation of Gross Fiscal Deficit in FY15



- Majority of the respondents (56%) expect the Government to cross the Fiscal deficit target for FY15 to stand between 4.1-4.5% of GDP.
- 21% of the respondents expect the GFD/GDP ratio to be below the target of 4.1% in FY15.
- A smaller proportion of 15% expects the Government to meet the committed target of 4.1% of GDP this fiscal.
- Only a handful (9%) foresees that the Government will incur fiscal deficit in excess of 4.5% of GDP.
- Notwithstanding the natural calamities that have befallen the country this year (Jammu & Kashmir, Andhra, floods in North East), ***CARE expects the Government to adhere to the 4.1% target in FY15.***

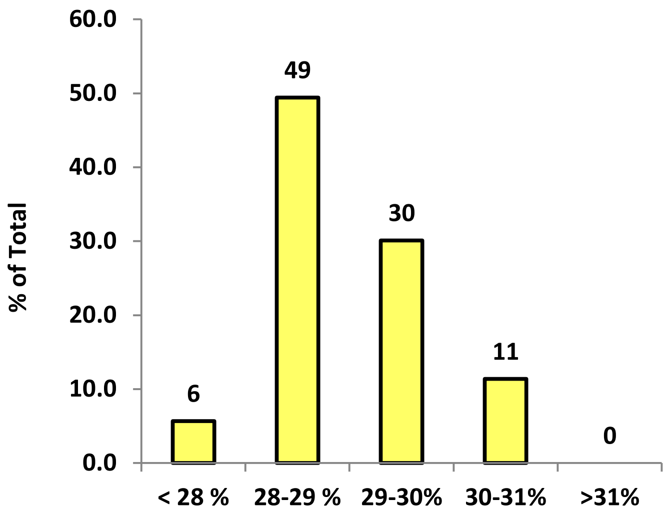
B. <u>Industry Parameters</u>

Exhibit 6: Expectation of Increase in Investments in Manufacturing



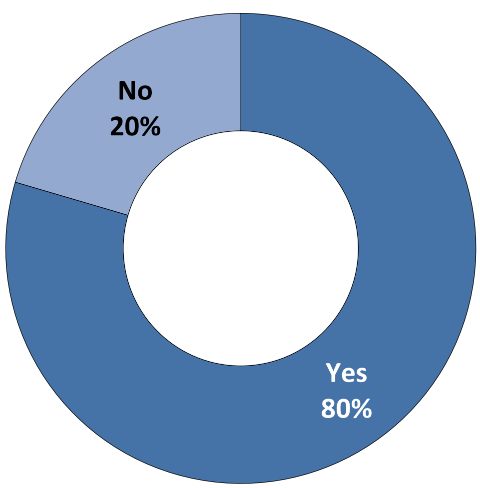
- A majority of 85% expect there to be an increase in investments in manufacturing in FY15.
- The residual minority foresee no increase in investments in manufacturing in FY15.
- A pick up in manufacturing investments correlates with expectations of improving growth domestically and internationally. Global growth is uneven at this juncture where as domestic demand is slated to rise.
- ***Hence, CARE's view is that it is more probable for investments in manufacturing to increase than decrease in FY15 to meet the requirements arising from demand.***
- However, the high interest rates, excess capacity, low and stagnant demand may serve as deterrents on this front.

Exhibit 7: Expectation of Gross Fixed Capital Formation in FY15



- Gross Fixed Capital Formation (GCFC) was 28.3% in FY14. 40% of the respondents now expect it to be in the same range of 28-29% in FY15.
- A sizeable proportion of respondents i.e. 30% expect GCFC to be higher in FY15 and between 29% and 30%.
- 11% optimistically expect GCFC to be between 30% and 31% in FY15.
- A small minority of 6% of respondents foresee a slowdown in GFCF this fiscal compared with last year.
- Capital formation has been subdued in the first half of FY15.
- Even though economic activity is forecast to gain momentum in the second half of FY14, ***CARE's view is that GCFC is likely to remain only marginally higher than FY14 levels (28-29%).***

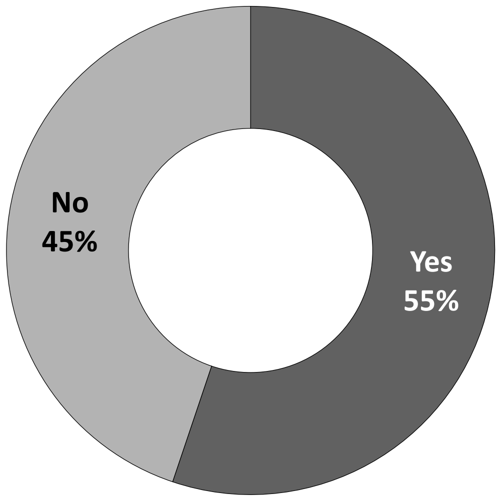
Exhibit 8: Expectation of Increase in Consumer Demand in H2 FY15



- There is high expectation of an increase in consumer demand in H2 of FY15 as the country enters its traditional festive and harvest season.
- 80% of the respondents foresee an increase in consumer demand.
- H2 of the fiscal year is typically bound to bring about higher consumer demand and subsequently spending.
- ***CARE expects there to be higher consumer demand in H2 FY15 relative to H1.*** This will help revive industrial growth t the range of 3-4%.
- Majority of the respondents particularly expect this higher consumer demand to benefit sectors of automobiles, consumer durables (in particular electric appliances) and textiles.

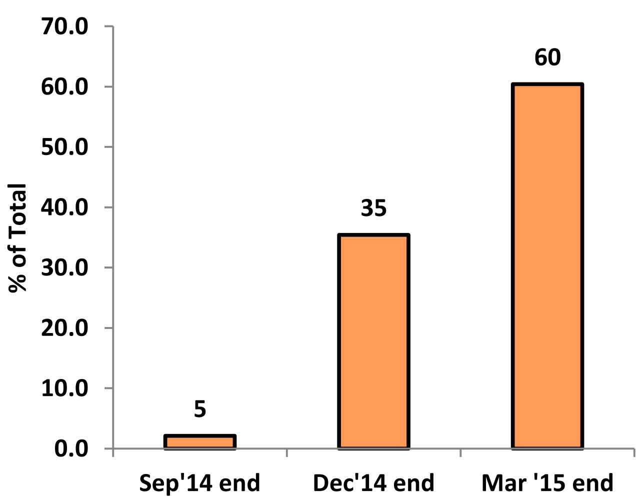
C. Monetary Parameters

Exhibit 9: Expectation of a rate cut by RBI in FY15



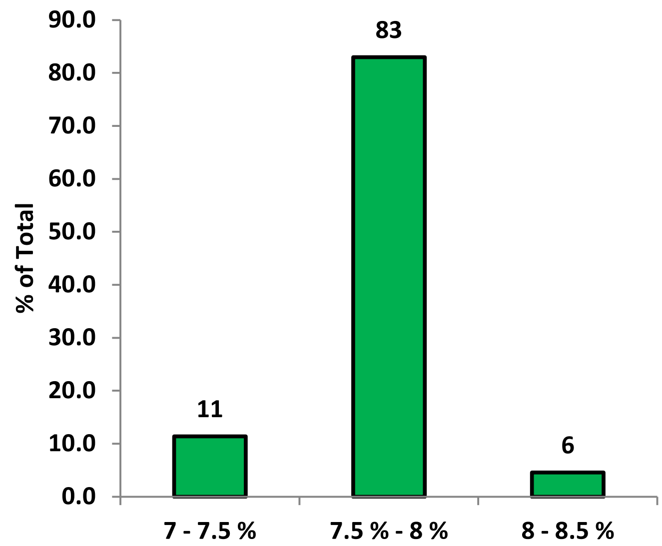
- The pot is almost spilt between a likely rate cut or not by the RBI.
- 55% expect RBI to lower interest rates during this fiscal year.
- 45%of the respondents on the other hand, do not foresee any room for the same.
- RBI's stance is clear and transparent and the admission has been to bring CPI inflation to 8% by January '15.
- Given that the recent downturn in inflation is primarily fostered by the high base effect which will wear off and inflationary expectations are still there, RBI will wait a bit longer.
- ***CARE expects RBI to start lowering rates by 25 bps in Q4-FY15.***

Exhibit 10: Expected timing of rate cut by RBI



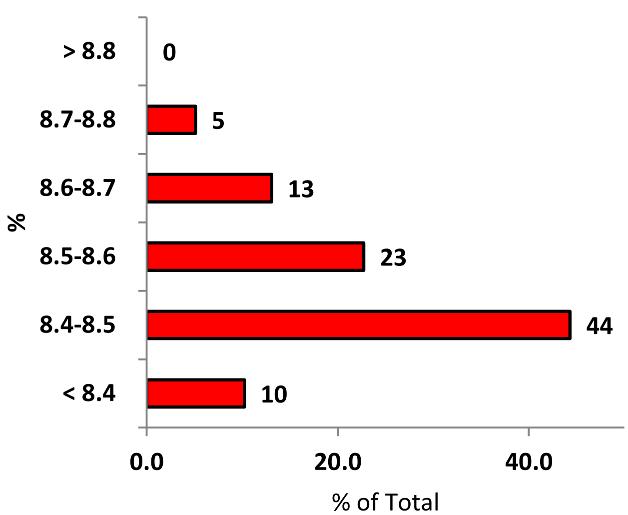
- Of the respondents who do expect a rate cut by the RBI in FY15, 60% foresees this in the last policy announcement of FY15.
- 35% of the respondents, who anticipate this rate cut by the RBI, expect it to occur in RBI's December Policy announcement.
- Only the residual 5% expected this to happen in September '14. *(Note the survey questionnaire was sent before the policy announcement in September '14)*
- ***CARE"s forecast is that it will happen in Q4-FY15***.

Exhibit 11: Expectation of repo rate by March '15



- There is noticeable harmony in the expectation of the repo rate by March '15.
- 83% of the respondents expect the repo rate to remain between 7.5-8% in March '15. Suggesting that some of the respondents from the group of those expecting a rate cut by the RBI foresee the reduction to be at maximum about 50 basis points.
- A much smaller proportion of 11% respondents expect RBI to lower the repo rate below 7.5% and upto 7% by March '15. In other words, they expect at maximum, a 100 basis points reduction in the repo rate from the current level of 8%.
- A very small proportion of 6% respondents expect repo rate to be hiked from 8% to anywhere between 8-8.5%.

Exhibit 12: Expectation of G-Sec Yields by March '15*



- Most of the respondents expect G-Sec yields to hover between 8.4% and 8.5% by March '15.
- There is some heterogeneity in the responses as 23% expect yields to be between 8.5% and 8.6%, 13% expect yields to settle between 8.6% to 8.7% window.
- 10% expect yields to edge below 8.4% and 5% expect yields to be higher between 8.7-8.8% by March '15.
- Presently, yields are below 8.4% on account of excess liquidity in the system. This is not expected to continue throughout the fiscal. ***Hence, CARE expects yields to be between 8.4%-8.5% by March '15***.

**Some respondents chose to not answer this question in the Survey.*

D. Financial Parameters

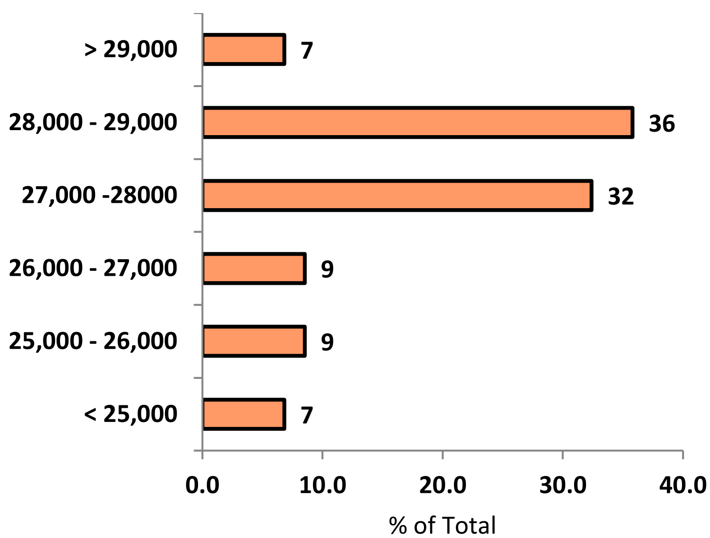
Exhibit 13: Expectation of Sensex by March '15	
	• Domestic stock indices have rallied in recent times. Sensex has entered the 26,000+ range. • Favorable economic data and positive FIIs have kept the stocks upbeat. • Cumulatively 75% of the respondents expect a number above 27,000. • 36% expect it to be within the range of 28,000-29,000. 32% expect the key index to settle lower between 27,000 and 28,000 by the end of the fiscal. • ***CARE's view is that Sensex is likely to be in the 27,000-28,000 range by March '15.***

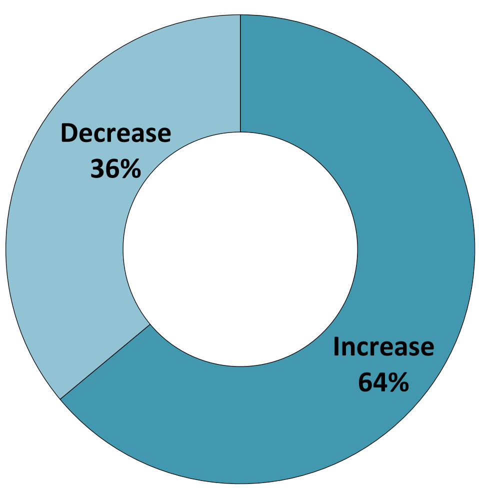
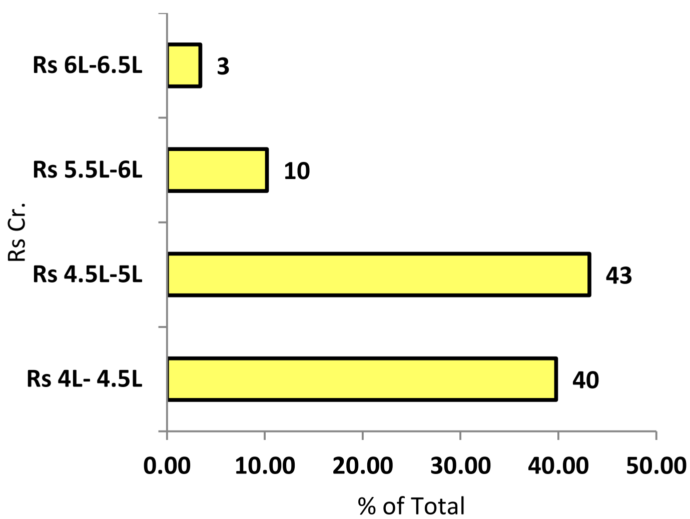
Exhibit 14: Expectation of the future course of NPAs in FY15 (NPAs as % of advances)	
	• Majority of the respondents i.e. 64% expect Non-Performing Assets (NPAs) to increase in FY15. • The residual expect NPAs to decrease in FY15. • ***CARE expects NPAs to be slightly lower than that last year.***

Exhibit 15: Expectation of debt under CDR Cell*

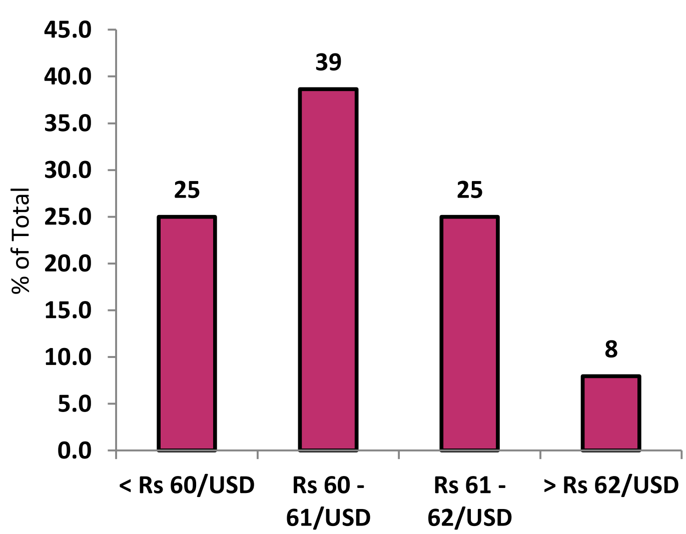


- As of 31st March '14, an aggregate of Rs 4.3 lkh Cr. was of debt was registered under the corporate debt restructuring cell of which Rs 3.3 lkh crore was approved.
- Expectations for the same for FY15 are divided. 43% expect this amount to remain between Rs 4.5 lakh Cr and Rs 5 lakh Cr and 40% expect it to be lower between Rs 4 lakh Cr. and Rs 4.5 lakh Cr.
- Only 10% respondents expect this amount to increase sharply to between Rs 5.5 lakh Cr and Rs 6 lakh Cr.

**Pertains to total registered and not necessarily 'approved'*

E. External Parameters

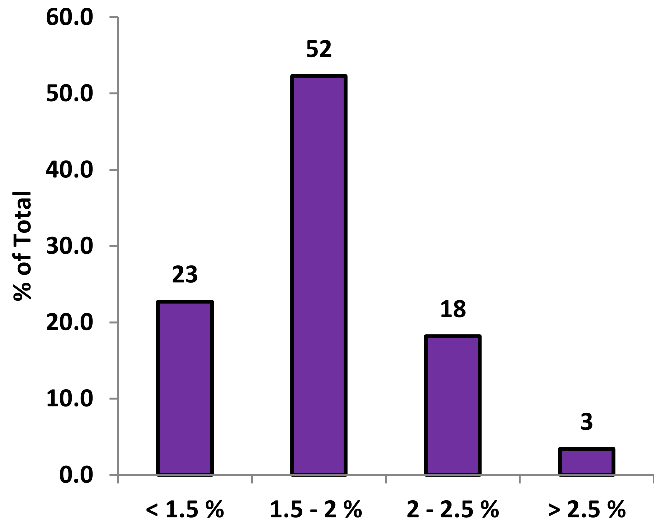
Exhibit 16: Expectation of Exchange Rate by March '14



- 39% of the respondents foresee the INR to remain between Rs 60 – Rs 61 against the USD.
- Combined with the range of 61-62, the portion would be 64%.
- Significantly, 25% of the sample respondents do expect rupee appreciation which is quite significant.
- Only 8% expect Rupee to weaken significantly against the USD and settle at an exchange rate of higher than Rs 62.
- The reaction of funds flow on account of zero easing by Fed and possible interest rate hikes (though not expected before June 2015) and trade balance will hold the cue for exchange rate movements.
- ***CARE's forecast has been Rs 60--Rs 62 for the year and by the end of the year would be between Rs 61-62.***

**Some respondents did not reply to this question in the Survey.*

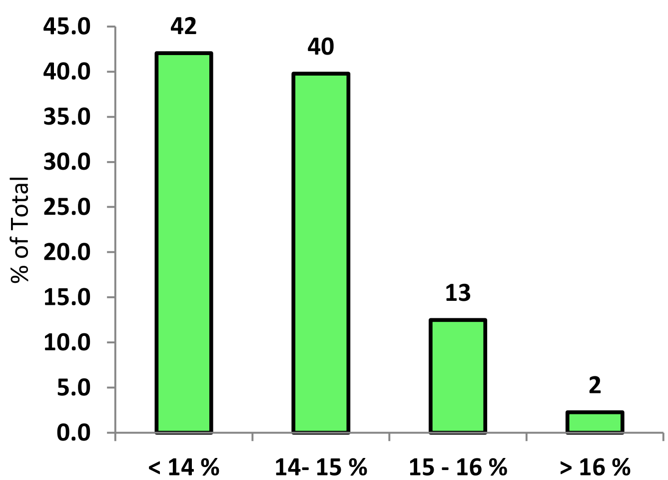
Exhibit 17: Expectation of CAD



- As of Q1 FY15, Current Account Deficit (CAD) stood at 1.7% of the GDP. It was 0.2% of the GDP in Q4 FY14 buoyed by the curbs on gold imports.
- Majority of the respondents i.e. 52% expect CAD to remain in the range of 1.5% to 2% in FY15.
- 23% expect it to narrow down further to less than 1.5% of GDP in FY15.
- 18% expect the CAD to widen to between 2% to 2.5% of GDP.
- Exports growth has registered improvement in FY15 relative to the previous year. Imports have also increased modestly as opposed to the levels in FY14 nullifying any positive impact on CAD from rising exports.
- ***CARE's expectation was 2-2.5% to begin with but given the unexpected fall in oil prices, the CAD would be closer to 2% by the end of FY15.***

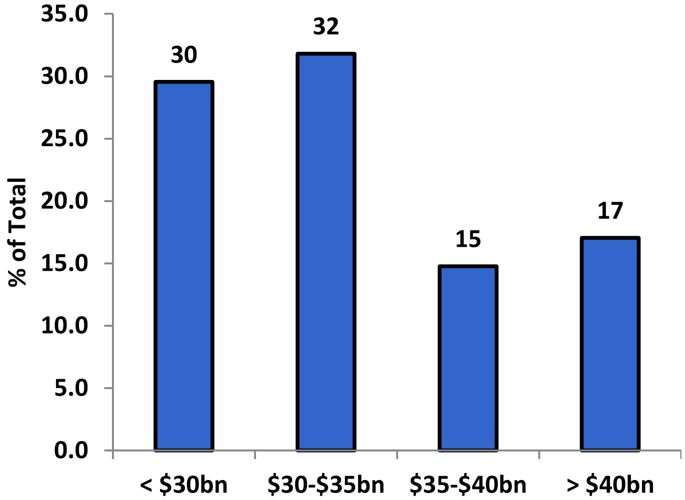
**Some respondents did not reply to this question.*

Exhibit 18: Expectation of Credit Growth



- Credit growth was 14.1% in FY14 and it has been rather sluggish in FY15 so far.
- This is reflected in the survey results as 42% expect credit growth to be below 14% in FY15.
- 40% expect it to be higher between 14-15% and 13% foresee credit growth between 15-16% this fiscal.
- Demand for credit has been subdued and credit disbursed has been largely on the retail side. While credit growth should gain momentum in H2, ***CARE expects it to remain between 14-15% for FY15.***

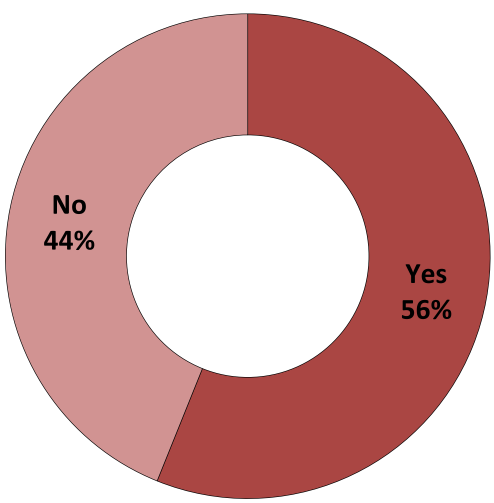
Exhibit 19: Expectation for FIIs in FY15



- Net FII investments were outward bound in FY14.
- In FY15 however, FII inflows in debt securities and equities have been strong and positive.
- The Survey results suggest that there is no strong majority as 32% expect FII inflows between $30 bn and $ 35 bn and 30% expect the same to be less than $30 bn.
- 17% expect FII inflows to be sharply higher above $ 40 bn in FY15.
- A proportion of 15% foresee FII inflows between $35 bn and $ 40 bn this fiscal. ***This is congruent to CARE's view.***
- Riding on the likelihood of interest rates remaining low in the USA and onset of quantitative easing in the EU region, India could witness some check on these inflows.

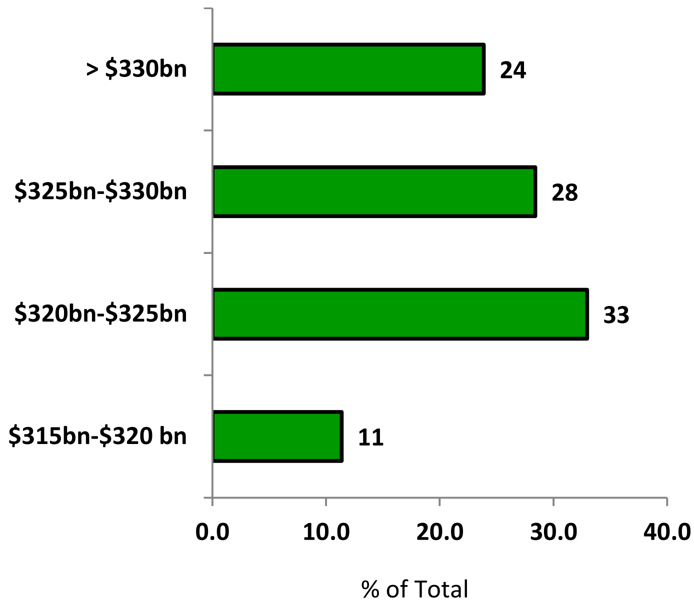
**Some respondents did not answer this question in the Survey.*

Exhibit 20:Expectation regarding tapering affecting FII inflows in India



- Most of the respondents (56%) expect the end of the tapering of the Federal Reserve Bank's quantitative easing programme to have a bearing on FII inflows into the country.
- The remaining 44% expect FII inflows to continue and remain unaffected despite the end of the quantitative easing.
- The end of quantitative easing is not likely to impact the FII inflows severely (as per the results in Exhibit 19). However, as the Federal Reserve Bank starts raising the interest rates, FIIs are likely to be redirected back to the USA.

Exhibit 21: Expectation of FOREX Reserves by March '15



- The total FOREX Reserves in FY14 stood at $303.7 bn. The same have been rising in FY15.
- The expectations regarding FOREX Reserves are unevenly distributed.
- ***33% respondents expect FOREX Reserves to be between $320 bn and $325 bn. CARE's own forecast is in this range.***
- Slightly lower proportion of 28% of the respondents expects the same to be higher between $325 bn and $ 330 bn by March '15.
- 24% expect FOREX Reserves to be higher than $330 bn by the end of FY15.
- 11% expect FOREX Reserves to stand lower between $315 bn and $320 bn by March '15.

**Some respondents did not answer this question in the Survey.*

Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-022-67543489

Garima Mehta
Associate Economist
garima.mehta@careratings.com
91-022-61443526