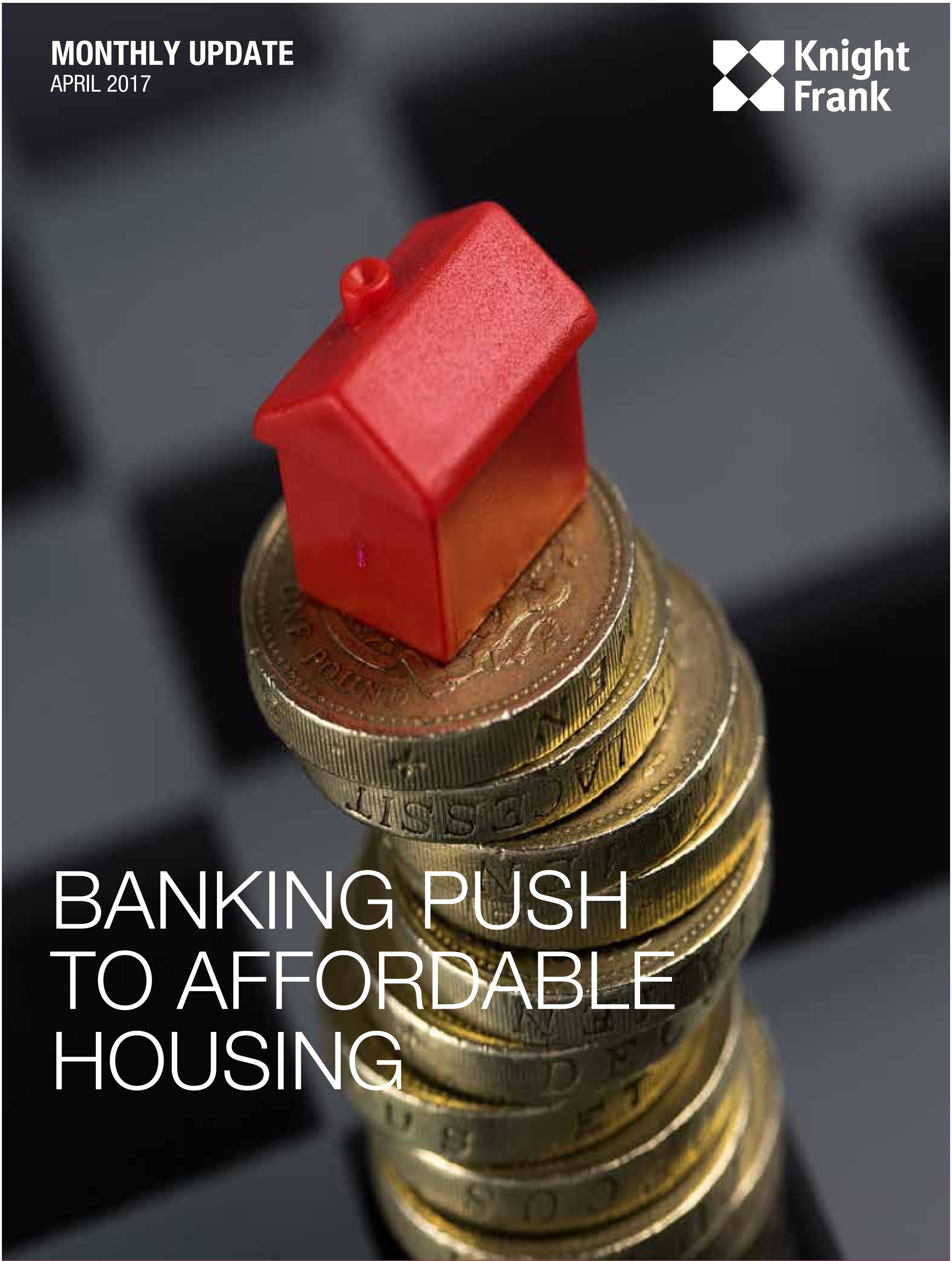
MONTHLY UPDATE
APRIL 2017



BANKING PUSH TO AFFORDABLE HOUSING

THE FEDERAL RESERVE MAINTAINS STATUS QUO ON INTEREST RATES

The US Federal Reserve has maintained status quo on interest rates. It is worth noting that the Fed had raised its benchmark rate in March 2017. In their post-meeting statement, the central bank policymakers provided little guidance on when their next rate hike might come. The Fed officials, however, acknowledged tepid growth during the first three months of 2017. According to the officials, the rate of inflation of around 2% is well within their goals. There are however, voices which speak of a possible increase in rates by the Fed in mid-June, although, the central bank policy makers have not provided any direction in this regard. Interest rates continue to remain at historically low levels. The Fed has held its benchmark rate near zero for seven years following the financial crisis to help boost the economy. They began raising rates in December 2015 and have boosted rates only twice since then.

CONSUMER SPENDING SHRINKS IN BRITAIN

As per the Bank of England, consumer spending in Britain is slowing down in the face of a marked pickup in inflation and businesses showing no visible signs of raising salaries. As per reports of the Bank of England, the fall of the GBP after last year's Brexit vote is pushing up prices. According to a survey of the Bank's regional agents, companies were restricting pay increments in the range of 2.0–2.5%. These findings are in line with the figures of the office of the National Statistics that showed that while average earnings increased by 2.4%, inflation is at 2.7%. The average weekly earnings in real terms, adjusted for inflation, fell by 0.2% excluding bonuses compared to 2016. Many believe that prices are likely to grow at a faster pace than wages, thereby further squeezing consumer spending.

IMF RAISES SOUTH AFRICA'S GROWTH FORECAST FOR 2017 FROM 0.8% TO 1%

The International Monetary Fund has raised its growth forecast of 2017 for South Africa, Africa's most industrialised economy, from 0.8% to 1%. The revision in growth forecasts has been done largely because of the resumption of solid agricultural production after a drought. Production this year has been extremely good, especially for maize. A modest rebound in mining production, reflecting improved commodity prices, especially for iron ore and coal is also expected. South Africa is expected to harvest 0.01 billion tonnes of maize in 2017, up 87% from last year's drought-hit crop. Other rating agencies have downgraded South Africa's credit rating. S&P Global Ratings and Fitch downgraded South Africa's credit rating to below investment grade last month, citing likely changes in economic policy.

INDIA UPDATE

IMF RETAINS THE 7.2% GROWTH RATE OF INDIA IN 2017–18

The much touted after effects of demonetisation seem to be losing their sheen. In its biannual World Economic Outlook (WEO), the International Monetary Fund (IMF) rationed its GDP growth projection of 7.2% for the Indian economy for 2017–18. The IMF further increased India's growth projection for 2016–17 to 6.8%, against 6.6%, which it had predicted in January 2017.

MAKE IN INDIA MAKING FURTHER HEADWAY

The Make in India campaign has certainly started to take shape in the automobile sector. Automobile giants like Mercedes-Benz, Mitsubishi Fuso, Freightliner and UD Trucks have already established their base in India. Daimler India Commercial Vehicles (DICV) has started exporting its trucks and buses manufactured at its Oragadam (Chennai) facility, to Southeast Asian markets. This list of global automobile majors with manufacturing bases in India is expected to go up further. Daimler AG and Volvo AB are likely to set up manufacturing bases in India and use it as their export hub for their large trucks and buses.

HOME LOANS: THE REAL GROWTH DRIVER

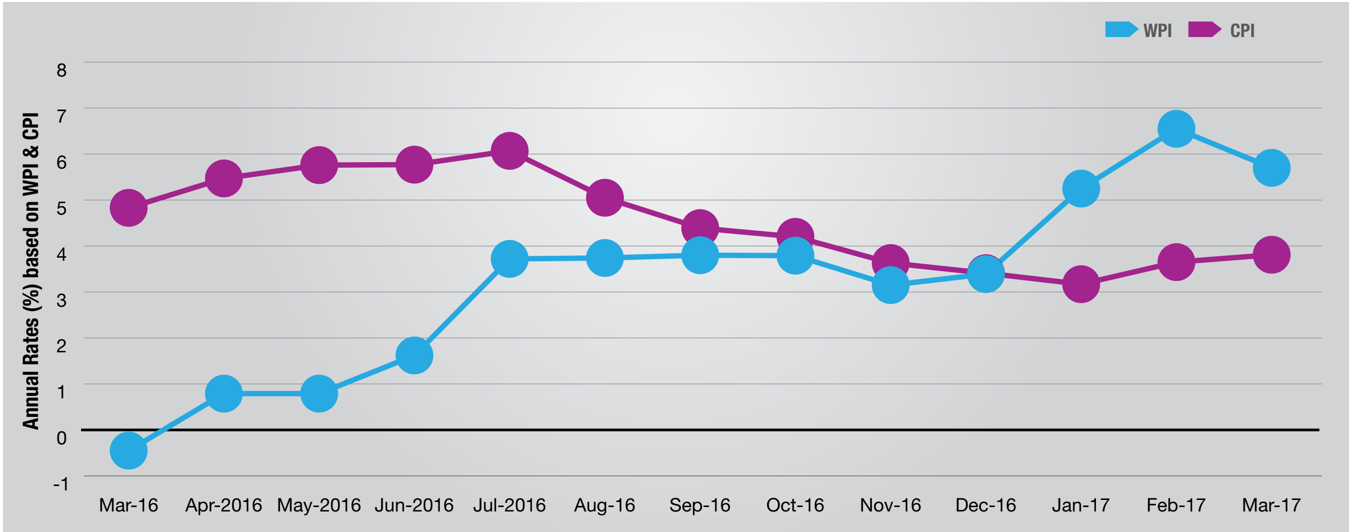
FY 2017 witnessed the slowest growth in bank credit since 1953–54. Home loans have been growing at a stupendous pace and have been the biggest driver of bank credit in recent times. Over the past five years, home loans have grown by a 16% compounded annual growth rate (CAGR). In the present day, home loans comprise around 12% of the entire bank credit. As of 31 March 2017, bank credit to the industry stood at ₹26.77 lakh crore, which is 2% lower than the same figure as of March 2016. Banks' exposure to home loans, as of March 2017, amounted to ₹8.60 lakh crore, which is 15% more than the same figure as of March 2016. The slowdown in lending to the industry is largely a result of the public sector banks having reduced their exposure to corporates and since they are burdened with bad loans, they found it hard to find safe avenues to lend. After home loans, credit card outstanding is the fastest growing segment. However, they account for less than one% of bank credit.

BANKS PARE HOME LOAN RATES

In a move that will give further fillip to the affordable housing segment, banks and financial institutions have started to cut the interest rate on home loans. The public sector giant, State Bank of India, cut the interest rate on its home loan by 25 basis points for loans up to ₹30 lakh for new homebuyers. As a result of this rate cut, the applicable rate for new home borrowers for a loan up to ₹30 lakh is 8.35%. For loans between ₹30 lakh and ₹75 lakh, the Bank cut rates by 10 basis points. Following the rate cut by the State Bank of India, other leading players in the home loan space like ICICI Bank and HDFC too followed suit. ICICI Bank reduced its home loan rates by 30 basis points for loans up to ₹30 lakh. After this rate reduction, the effective rate for salaried woman is 8.30% and 8.40% for others. Housing Finance major, HDFC, too reduced its interest rates on home loans up to ₹30 lakh to 8.35% for women and 8.40% for others. With banking giving the necessary push to the affordable housing segment, others players in this space should take a cue and reduce their rates as well.

CONSUMER INFLATION MOVES UP SLIGHTLY TO 3.81%; WHOLESALE INFLATION EASES A BIT

INFLATION



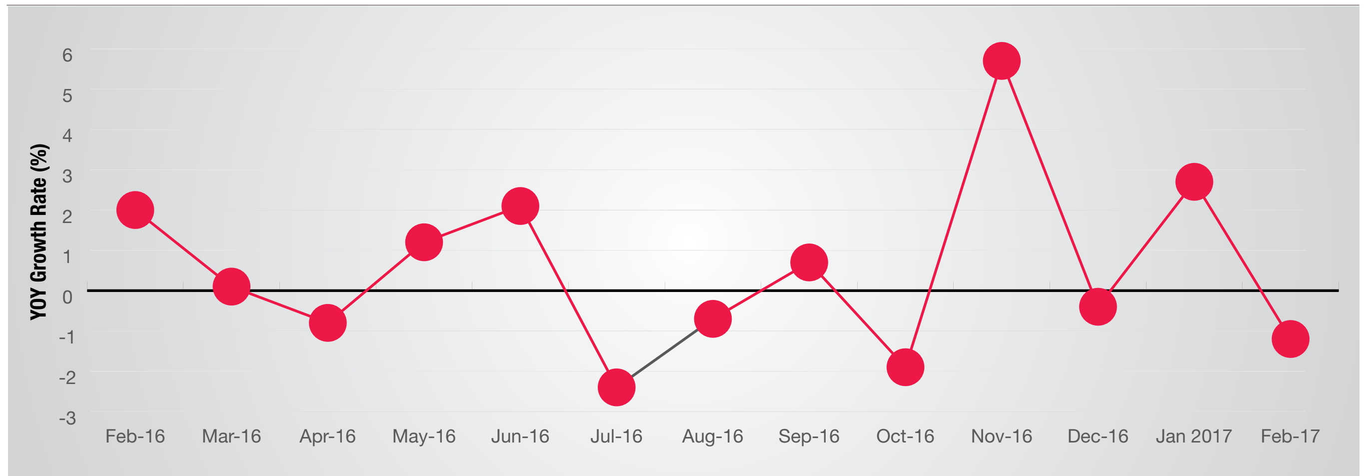
Source: Ministry of Commerce & Industry, Ministry of Statistics and Programme Implementation, Government of India

The all-India general CPI inflation increased to 3.81% in March 2017 (new base 2012=100), compared with 3.65% in February 2017. The slight rise in CPI can be attributed to the rising inflation in food and beverages to 2.54% in March 2017 from 2.39% in February 2017. Within food items, the inflation increased for vegetables to (-) 7.24%, fruits 9.35%, milk and dairy products 4.69%, prepared meals, snacks, sweets, etc. 5.65%, egg 3.21% and cereals and products by 5.38%. The inflation was flat for non-alcoholic beverages at 3.17%. On the other hand, inflation declined for pulses and products to (-) 12.42%, spices 2.99%, meat and fish 2.96% and sugar and confectionery 17.05% in March 2017. The inflation for housing rose marginally to 4.96%, while that for miscellaneous items was flat at 4.78% in March 2017. Within the miscellaneous items, the inflation for personal care and effects eased to 4.52% and education to 5.20%, while inflation rose for transport and communication to 6.04% in March 2017. For clothing and footwear inflation increased to 4.60% and that of pan, tobacco and intoxicants increased to 6.23%.

Wholesale price inflation as measured by the wholesale price index (WPI) for March 2017 dropped to 5.70% in March 2017 from 6.55% in February 2017. When compared to March 2016, the WPI is up by 525 basis points. The index for food articles moved up marginally compared to February 2017 due to higher price of fruits and vegetables, ragi, bajra, egg, marine fish and rice. However, the prices for gram, condiments and spices, arhar, urad, jowar, wheat, barley, masur, maize and moong declined. The index for the non-food articles group declined by 1.8% compared to February 2017, largely due to lower price of flowers, linseed, rape and mustard seed, raw rubber, fodder, copra, gingelly seed, soyabean, sunflower and skins (raw). However, the prices of guar seed, castor seed, kardi seed, groundnut seed, mesta, raw silk, coir and raw cotton moved up. The index of minerals rose by 1.5% due to the higher price of manganese ore, chromite, copper ore, iron ore, zinc concentrate and sillimanite. On the other hand, the prices of magnesite and phosphorite went down. The index for fuel and power declined by 0.1% due to the low prices of bitumen and furnace oil. The index for manufactured products declined by 0.1% and that for beverages, tobacco and the tobacco products group rose by 0.1%.

INDUSTRIAL PRODUCTION IN THE RED

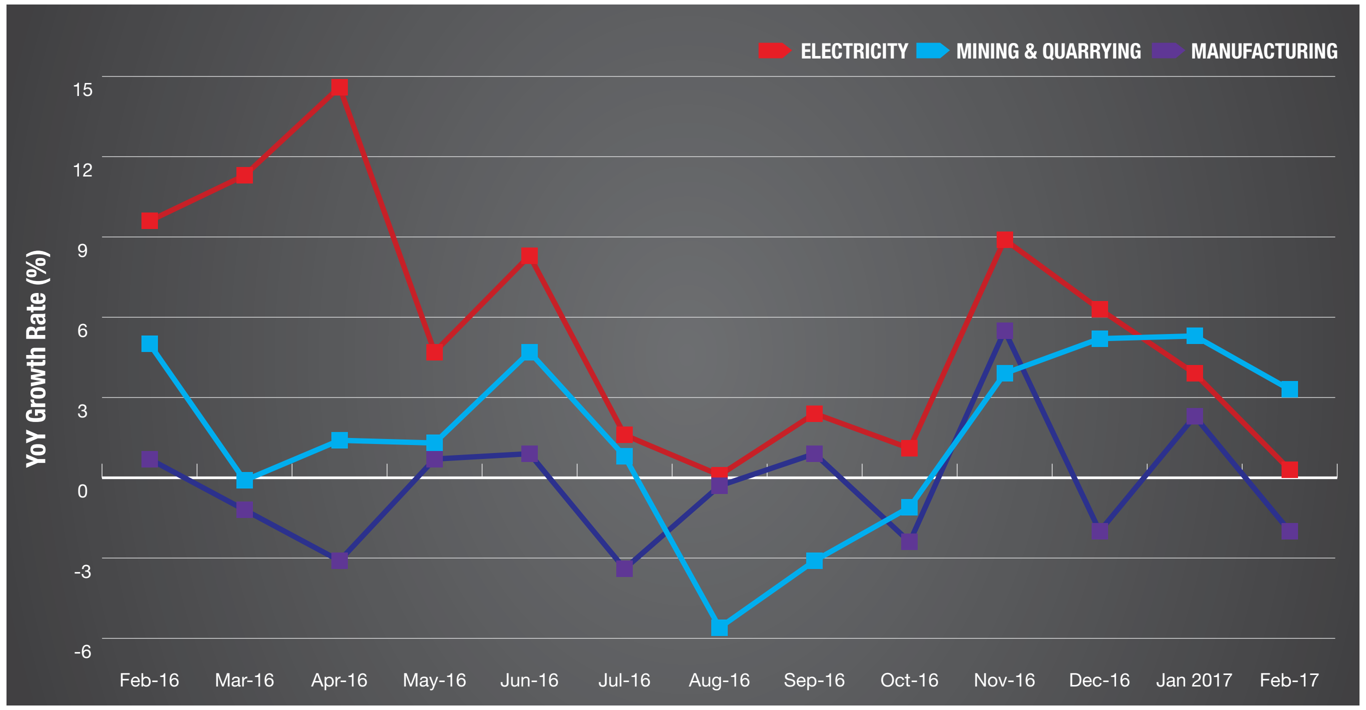
IIP (GENERAL INDEX)



Source: Ministry of Statistics and Programme Implementation, Government of India

The Index of Industrial Production (IIP) was in the red in February 2017, wherein it contracted by 1.2%. In contrast, the IIP was in the positive, up 2% in February 2016. Even for the month of January 2017, the IIP was in the positive (up 2.7%). The decline in IIP for February 2017 is mainly on account of 2% contraction in the manufacturing sector, which constitutes over 75% of the index. The sector had recorded a growth of only 0.6% in February 2016.

IIP (SECTOR WISE)



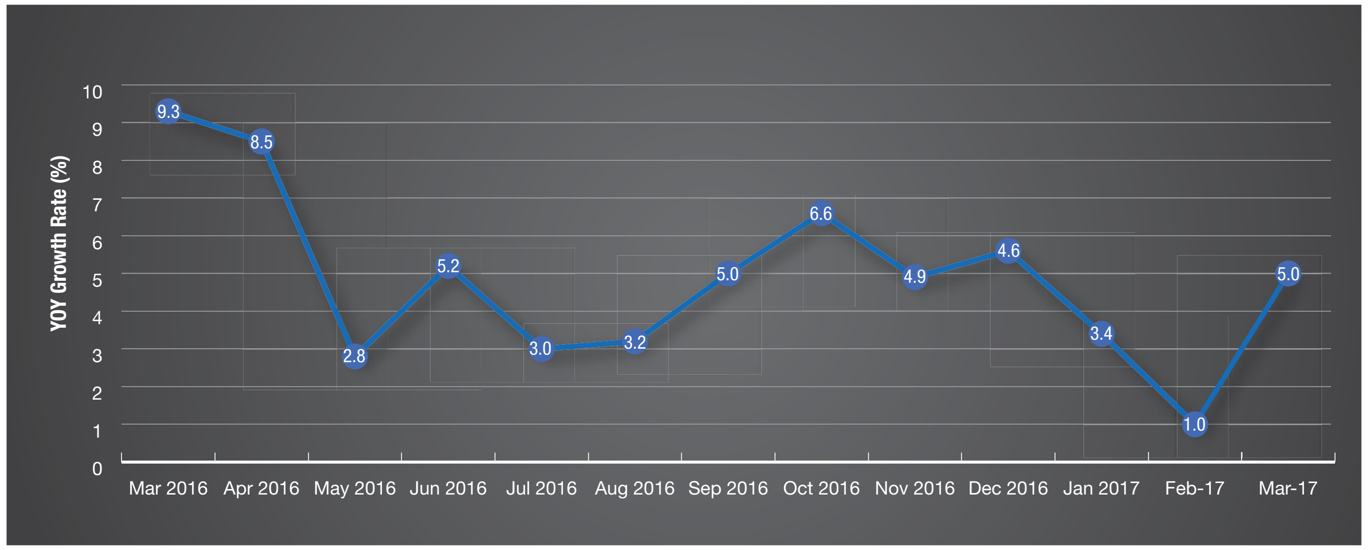
Source: Ministry of Statistics and Programme Implementation, Government of India

As mentioned earlier, the deceleration in the growth of the manufacturing sector has pulled down the index in February 2017. It is, however, worth noting that in February 2016 the manufacturing sector grew only by 0.7%, but what pushed the index up was a healthy growth rate of the mining and quarrying and electricity sectors. On the contrary, in March 2017, the growth rate of mining and quarrying and electricity was 3.3% and 0.3%, respectively.

Nevertheless, with the slew of reforms that are in the pipeline, the IIP should improve in the near future

CORE SECTOR MOVES UP

INDEX OF EIGHT CORE INDUSTRIES



Source: Ministry of Commerce & Industry, Government of India

The eight core sectors that make up nearly 38% of the weight of IIP fared well in March 2017, compared to February 2017. While the rate of growth was 1% in February 2017, the same was 5% in March 2017, which is much lower than the 9% growth rate recorded in March 2016.

Of the eight sectors, five were positive with healthy growth rates. Three sectors were in the red. Of the three sectors that were in the red, two were just about on the border – refinery products (-0.3%) and fertilizers (-0.8%); the cement sector, in comparison, fared badly with a growth rate of -6.8%. The sectors that marched ahead were steel (11%), coal (10%), natural gas (8.3%), electricity (5.9%), and crude oil at 0.9%.

EXPORTS CONTINUE TO STAY POSITIVE

Even though the rate of growth of exports has come down from 27.59%, in dollar terms, witnessed in March 2017, exports during April 2017 have remained healthy. In April 2017, exports in dollar terms grew by 19.77% compared to the same period last year. In rupee terms as well, growth during the same period was 16.23%. Exports of non-petroleum, non-gems and jewellery grew by 17.06% in April 2017 compared to the same period last year. As per the latest figures provided by the WTO, the growth in exports was positive for all major economies, USA (4.74%), EU (0.16%), and Japan (13.30%) during February 2017 compared to the same period last year. Only China experienced a decline in exports (-1.56%) during February 2017 compared to the same period last year.

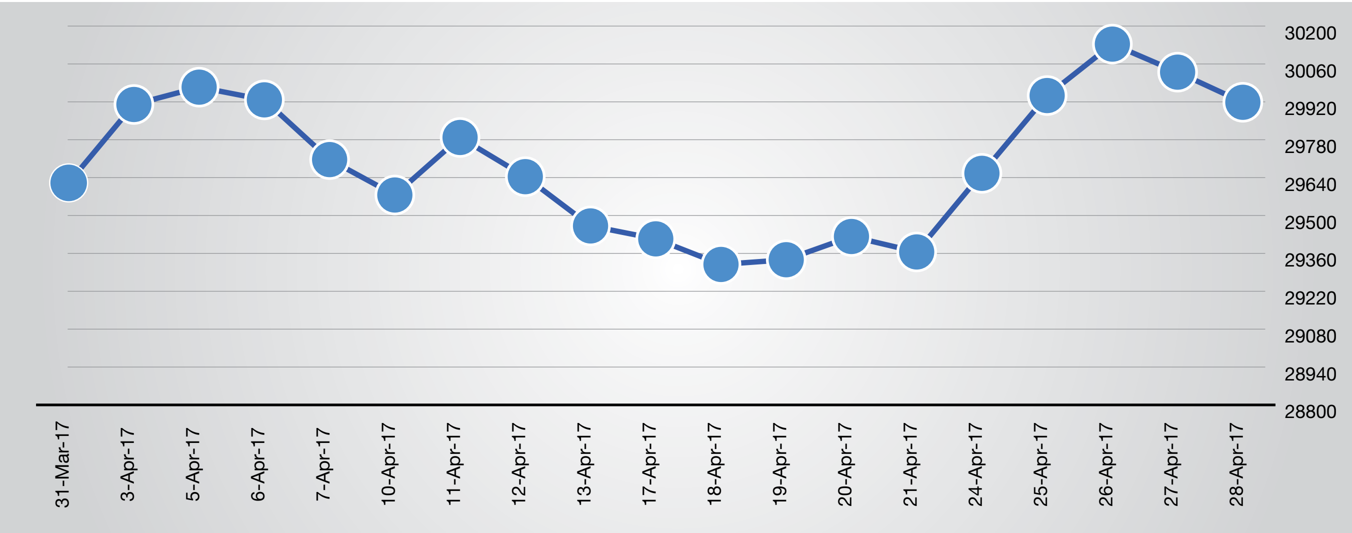
Imports during April 2017 were valued at USD 37.88 billion, which were 49.07% higher in dollar terms and 44.67% higher in rupee terms compared to April 2016. Oil imports during April 2017 were valued at 7.35 billion, which was 30.12% higher than oil imports in April 2016. As per The World Bank commodity price data, Global Brent prices ($/bbl) have increased by 25.40% in April 2017 compared to the same period last year. Non-oil imports during April 2017 were estimated at USD 30.52, which is higher by 54.50% compared to the same figure in April 2016.

With regards trade in services, exports during March 2017 registered a positive growth of 8.57% in dollar terms, as compared to a negative growth of 3.76% during February 2017. Imports during March 2017 registered a positive growth of 14.26% in dollar terms compared to a negative growth of 13.96% in February 2017.

With regards trade in balance in merchandise, the trade deficit for April 2017 was estimated at USD 13.25 billion, which is 173.47 higher than the deficit of USD 4.84 billion during April 2016. As per RBI, the trade balance in services for March 2017 was estimated at USD 5.91 billion. The net of services for April–March 2016–17 was estimated at USD 65.21 billion, which is lower than the net export of services of USD 69.41 billion during April–March 2015–16. The overall trade balance has improved. Taking merchandise and services together, the overall trade deficit for April–March 2016–17 is estimated at USD 40.98 billion, which is 16.87% lower in dollar terms than the level of 49.29 billion during April–March 2015–16.

SENSEX

S&P BSE SENSEX

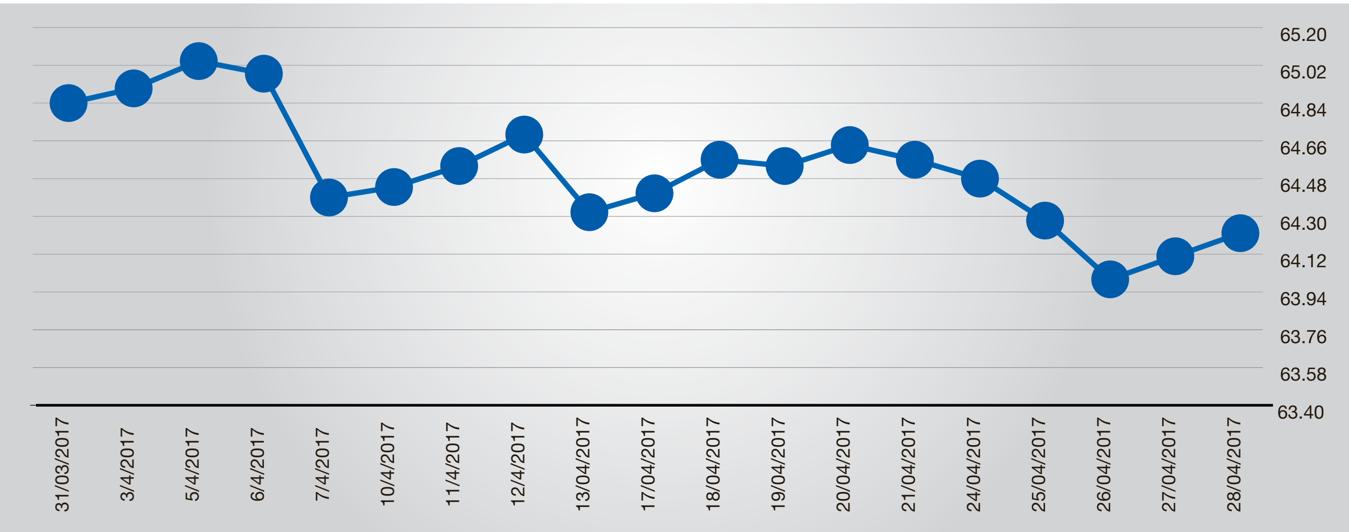


Source: Source: Bombay Stock Exchange

The S&P BSE Sensex gained 1% during the month of April 2017. This was also the month when the Sensex for the first time closed beyond 30,000. The rally this time around is more to do with retail participation from domestic investors. Since the present government took office, the Sensex has climbed 25%. Over the last three years, the domestic retail investors have put in an amount of INR 1.94 lakh core into equity schemes of mutual funds. Apart from mutual funds, retail investors also have exposure to equities either directly or through the schemes of insurance companies, National Pension System and Employees' Provident Fund.

CURRENCY

INR/USD



Source: Reserve Bank of India

The Indian rupee gained 1% over the US dollar during the month of April 2017.

THE APPROVAL FOR DECLARATION OF VIJAYAWADA AIRPORT AS AN INTERNATIONAL AIRPORT

In a move that will boost air connectivity to Vijayawada, the Union Cabinet chaired by Narendra Modi, Prime Minister of India, gave its approval for the declaration of Vijayawada Airport as an international airport. This was done as per the provisions of the Andhra Pradesh Reorganisation Act, 2014. Currently, there are a handful of flights that arrive at the Vijayawada airport. Poor connectivity to the only airport (Vijayawada Airport) that is closest to the upcoming state capital of Amaravati can be gauged from the fact that it does not have direct air connectivity with Mumbai, the financial capital of the country. With regards to connectivity even with New Delhi, there are only two direct flights. The proposal will add to improved connectivity to the upcoming state capital. It will provide wider choice of services at competitive costs to the air travellers and give a boost to domestic/international tourism and socio-economic development of Andhra Pradesh by bringing in international passengers and cargo traffic.

WORK TOWARDS INCREASING THE CAPACITY OF DELHI AIRPORT

The Ministry of Civil Aviation is working on a roadmap with the stakeholders to increase airside capacity of Delhi airport from the current 67 movements per hour to 95 movements per hour at peak time in the next three years. By the end of 2017, the airside capacity is expected to rise by 10%, with around 72 to 73 movements per hour. With the increase in airside capacity, it is expected that the passenger movement at Delhi airport would also rise from the current 60 million passengers to about 90 million passengers annually. The Ministry will soon put in place a Master Plan for expansion of the airside capacity and terminal capacity at the airport to accommodate the increase in passenger volume. UK's leading air navigation service provider, NATS, is closely involved in guiding the airside expansion and is giving inputs on how much the airport capacity can be expanded.

CONNECTING CHARDHAM BY RAILWAYS

Prime Minister Narendra Modi's vision is to being the Chardham pilgrimage centres within the railways network.

In a step in this direction, the Indian Railways will shortly start the final location survey for a single, broad-gauge line rail connectivity for the Chardham pilgrimage. Rail Vikas Nigam Limited (RVNL), a public sector enterprise under the Ministry of Railways, has been entrusted to undertake the final location survey for rail connectivity to locations that are at the heart of the Chardham pilgrimage. These include locations like Gangotri, Yamunotri, Badrinath and Kedarnath via Dehradun and Karanprayag in Uttarakhand.

NHAI SIGNS MOU WITH TIDCO FOR DEVELOPMENT OF A MULTIMODAL LOGISTICS PARK

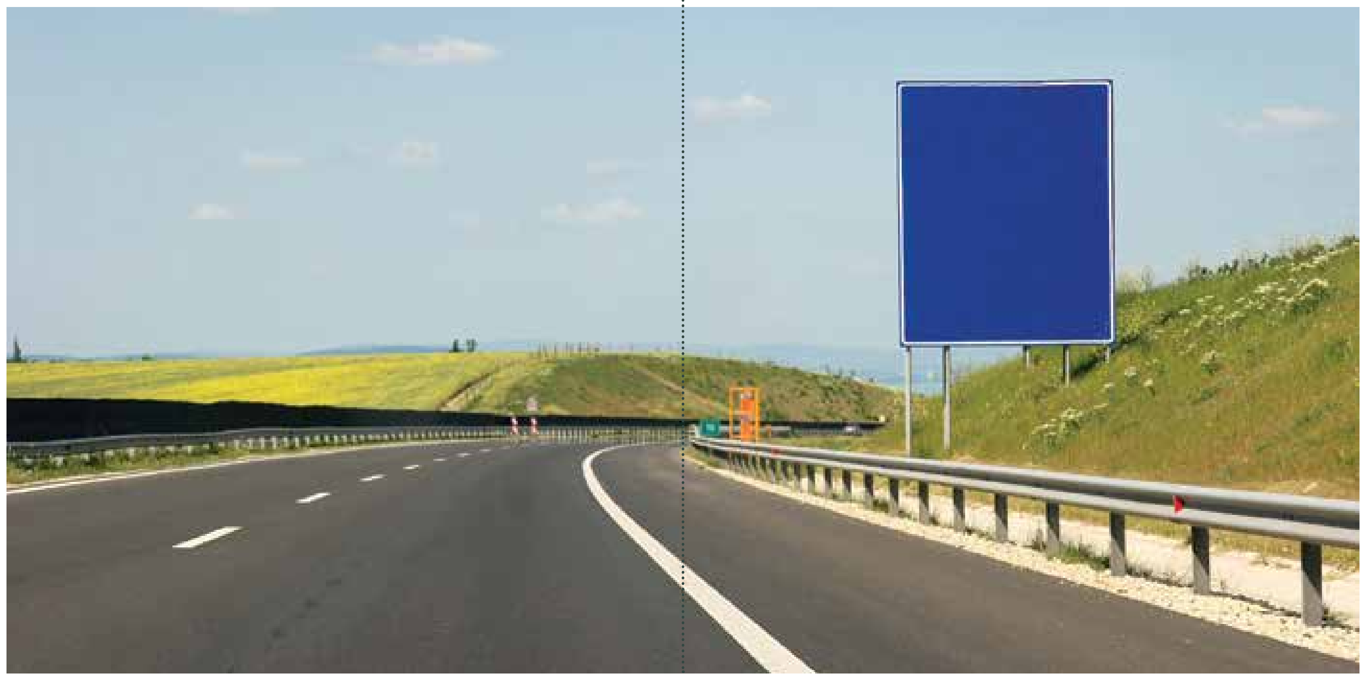
The National Highways Authority of India (NHAI) signed an MoU with the Tamil Nadu Industrial Development Corporation Limited (TIDCO), for the development of a Multimodal Logistics Park in the Ponneri Industrial Node area near Kamarajar Port in Tamil Nadu. The Ministry of Road Transport and Highways is planning to develop Mutimodal Logistics Parks under its Logistics Efficiency Enhancement Programme (LEEP) in 15 locations all over India at a cost of ₹33,000 crore, including ₹1,295 crore investment for the Chennai Region. The proposed logistics parks will bring down the overall freight costs, reduce vehicular pollution and congestion and will enable reduction of warehousing costs. All this is expected to result in lower logistics costs.

NHAI MASALA BOND LAUNCHED AT LONDON STOCK EXCHANGE

The NHAI issue witnessed an overwhelming response from a wide range of investors, some of them being first timers to participate in the Masala Bond market. The transaction marks the largest ever five-year issuance and the largest inaugural transaction in the Masala Bond market. Some of the leading investors were still showing interest in the NHAI issue, who may be brought into the fold in the near future. It is interesting to note that the NHAI Masala Bond issue has attracted investors from across the spectrum, with Asia contributing 60% of the subscription and the balance 40% coming from Europe. Further, 61% of the amount comes from the fund managers or insurance, 18% from the banks and 21% from the private banks. The spectrum of investors shows bright prospects of the Masala Bond as an instrument of raising rupee denominated resources internationally.

MOUS WORTH INR 2 LAKH CRORE SIGNED AT THE INDIA INTEGRATED TRANSPORT AND LOGISTICS SUMMIT

Thirty-four MoUs amounting to approximately INR 2 lakh crore were signed at the India Integrated Transport and Logistics Summit. These MoUs were in the areas of port connectivity, integrated check posts (ICP), development of logistics parks and furthering of multimodal logistics parks, exploring investment opportunities in logistics sector, dredging of inland waterways, implementation of 79 port connectivity projects, development of port roads and connectivity to airport in Navi Mumbai among others. Some of these MoUs are between government agencies, while others are between government to business and business to business.



APPENDICES

1. INFLATION

	WPI	CPI
Mar-17	**5.70**	**3.81**
Feb-17	6.55	3.65
Jan-17	5.25	3.17
Dec-16	3.39	3.41
Nov-16	3.15	3.63
Oct-16	3.79	4.20
Sep-16	3.80	4.39
Aug-16	3.74	5.05
Jul-16	3.72	6.07
Jun-16	1.62	5.77
May-16	0.79	5.76
Apr-16	0.79	5.47
Mar-16	**-0.45**	**4.83**
WPI Base Year = 2004–05, CPI Base: 2012 = 100		

Source: Ministry of Commerce & Industry, Ministry of Statistics and Programme Implementation, Government of India

2. IIP

INDEX OF INDUSTRIAL PRODUCTION – GROWTH RATE (%)				
	General Index	Mining & Quarrying	Manufacturing	Electricity
Feb-17	**-1.2**	**3.3**	**-2.0**	**0.3**
Jan-17	2.7	5.3	2.3	3.9
Dec-16	-0.4	5.2	-2.0	6.3
Nov-16	5.7	3.9	5.5	8.9
Oct-16	-1.9	-1.1	-2.4	1.1
Sep-16	0.7	-3.1	0.9	2.4
Aug-16	-0.7	-5.6	-0.3	0.1
Jul-16	-2.4	0.8	-3.4	1.6
Jun-16	2.1	4.7	0.9	8.3
May-16	1.2	1.3	0.7	4.7
Apr-16	-0.8	1.4	-3.1	14.6
Mar-16	0.1	-0.1	-1.2	11.3
Feb-16	**2.0**	**5.0**	**0.7**	**9.6**

Source: Ministry of Statistics and Programme Implementation, Government of India

3. CORE SECTOR

CORE SECTOR GROWTH RATES (%)									
Sector	**Coal**	**Crude oil**	**Natural gas**	**Refinery products**	**Fertilisers**	**Steel**	**Cement**	**Electricity**	**Overall Index**
Weight	**4.379**	**5.216**	**1.708**	**5.939**	**1.254**	**6.684**	**2.406**	**10.316**	**37.903**
Weight	**4.379**	**5.216**	**1.708**	**5.939**	**1.254**	**6.684**	**2.406**	**10.316**	**37.903**
Mar-17	**10.0**	**0.9**	**8.3**	**-0.3**	**-0.8**	**11.0**	**-6.8**	**5.9**	**5.0**
Feb-17	7.1	-3.4	-1.7	-2.3	-5.3	8.7	-15.8	1.5	**1.0**
Jan 2017	4.8	1.3	11.9	-1.5	-1.6	11.4	-13.3	4.8	**3.4**
Dec 2016	4.4	-0.8	0.0	6.4	-4.7	14.9	-8.7	6.0	**5.6**
Nov 2016	6.4	-5.4	-1.7	2.0	2.4	5.6	0.5	10.2	**4.9**
Oct 2016	-1.6	-3.2	-1.4	15.1	0.8	16.9	6.2	2.8	**6.6**
Sep 2016	-5.8	-4.1	-5.5	9.3	2.0	16.3	5.5	2.2	**5.0**
Aug 2016	-9.2	-3.9	-5.7	3.5	5.7	17.0	3.1	0.1	**3.2**
Jul 2016	5.1	-1.8	3.3	13.7	-4.3	-0.5	1.4	1.6	**3.0**
Jun 2016	12.0	-4.3	-4.5	3.5	9.8	2.4	10.3	8.1	**5.2**
May 2016	5.5	-3.3	-6.9	1.2	14.8	3.2	2.4	4.6	**2.8**
Apr 2016	**-0.9**	**-2.3**	**-6.8**	**17.9**	**7.8**	**6.1**	**4.4**	**14.7**	**8.5**
Mar 2016	**2.5**	**-5.1**	**-10.5**	**10.8**	**22.9**	**7.8**	**12.9**	**17.9**	**9.3**

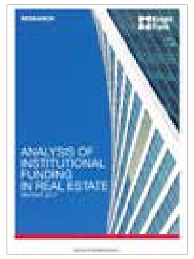
Source: Ministry of Commerce & Industry

RESEARCH

Dr. Samantak Das
Chief Economist &
National Director- Research
samantak.das@in.knightfrank.com

Pankaj Toppo
Vice President - Research
pankaj.toppo@in.knightfrank.com

RECENT MARKET-LEADING RESEARCH PUBLICATIONS


Analysis of institutional funding in Real Estate


REIT-ABLE SPACE IN INDIA 2017


India Real Estate Outlook - Jul to Dec 2016


Think India Think 'connected' Retail

Knight Frank Research Reports are available at KnightFrank.com/Research

CIN No. – U74140MH1995PTC093179