MONTHLY UPDATE
AUGUST 2016

REGIME OF REFORMS UNFOLDS IN INDIA

THE ECONOMY GRAPPLES WITH HIGH INFLATION

GLOBAL UPDATE | INDIA UPDATE | INDIA INFRASTRUCTURE & REALTY UPDATE

For the first time since March 2009, the Bank of England cut the key policy rates from 0.5% to 0.25% as the effects of Brexit are being felt with the weakening of investment, consumption demand and industrial activity in the UK. It has also introduced fiscal measures to support the economy. International attention is also set on September policy meet of the US Federal Reserve and its take on interest rates as it has been suggesting a probable interest rate hike on signs of improvement in the labour market and inflation levels. As a result, the strengthening dollar is keeping the gradually rising oil prices in check, though the larger US and OPEC stocks also pull down the prices.

In India, inflation is firming up, driven by food inflation, particularly in pulses and vegetables, sugar and confectionary and cereals. Though there are expectations of food inflation to soften in the coming months on back of better monsoons and larger cultivation, taming the overall inflation could be challenging if the oil prices firm up. Also larger payouts as a result of the 7th pay commission recommendations would enhance demand and push inflation higher. This poses challenges in meeting the RBI set inflation target of 5% by March 2017 and leaves lesser probability of RBI hiking interest rates soon. This also prompts the need to work on enhancing supply management mechanisms. GDP growth has slowed to 7.1% in Q1 2016-17 highlighting the need to strengthen efforts for encouraging private investments.

Industrial production is on the path of recovery since May. Better monsoon and ensuing festive season may enhance demand and help industrial activity. Bogged by overall global slowdown, exports continue to fall after exhibiting an uptrend in June. It only underlines that India needs to also diversify its exports to countries other than traditional export destinations.

To meet the demands of an expanding financial system, the RBI has introduced new bank licensing norms making it easier for new entities to apply while also keeping away entities whose 60% of businesses are not in financial services. The Bank also introduced the long awaited measures aimed at widening and deepening India's dormant bond market.

In an attempt to enhance the ease of doing business and strengthen insolvency framework, the Lok Sabha passed the Enforcement of Security Interest and Recovery of Debts Laws and Miscellaneous Provisions (Amendment) Bill, 2016. The crucial GST legislation is ratified in several states, though the government has to work on putting in place the GST Council, the rules framework and the technical platform.

In the infrastructure sector, the quarterly GDP numbers suggest the urgent requirement to revive the stalled projects. On the real estate policy front, the central government has approved sale rules in the sector focusing on timely completion and delivery and protection of allottee interests.

GLOBAL UPDATE

BANK OF ENGLAND (BOE) SLASHES KEY POLICY RATES TO A RECORD 0.25%

The Bank of England introduced the first interest rate cut since March 2009 by slashing the bank rate from 0.5% to 0.25% along with a new Term Funding Scheme that will facilitate funding for banks at interest rates close to the bank rate. This will reinforce the pass-through of the cut in bank rate.

Additionally, the BoE also introduced measures to support the economy that included plans to purchase up to £10 billion of UK corporate bonds along with an expansion of the asset purchase scheme for UK government bonds of £60 billion, thus taking the total stock of asset purchases to £435 billion.

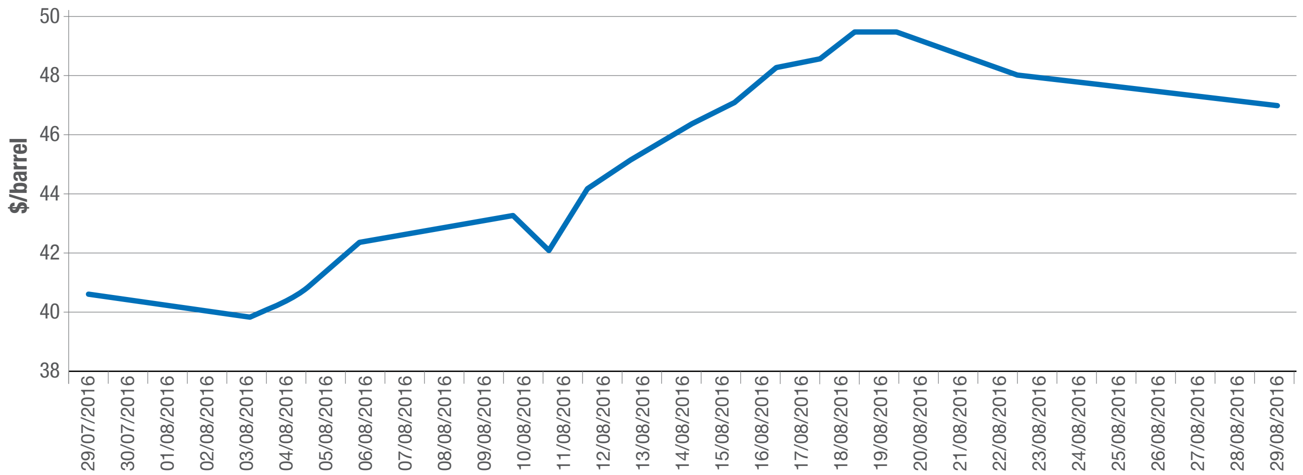
The Bank also slashed its growth forecast for next year to 0.8% from 2.3% and that for 2018 to 1.8% from 2.3%.

The measures follow as an adverse fall out of Brexit on the UK economy, as the reports indicated weaker investment and consumption demand, weakened industrial activity and subdued confidence.

OIL

During August 2016, oil prices gained by over 15%. The gains, however, stood checked on account of higher output by the OPEC countries while a stronger dollar played against the overall commodities. Hawkish statements from the US Federal Reserve officials regarding growth developments in the US may prompt an interest rate hike in their September policy meet, this kept the dollar firm, while lending some volatility to oil across the month.

EUROPE BRENT SPOT PRICE



Source: U.S. Energy Information Administration

INDIA UPDATE

GST BILL ROLLS OUT OF LOK SABHA, AWAITING NOD FROM INDIAN STATES WHILE MANY TECHNICALITIES STILL TO BE ADDRESSED

The Lok Sabha passed the Constitution (122nd Amendment) Bill relating to the introduction of the Goods and Services Tax (GST). Earlier the Bill was passed by the Rajya Sabha. It will now be required to be ratified by at least half the number of 29 state legislative assemblies to fulfill the constitutional norms

stipulated for the passing of a constitution amendment bill. As of date, it has been ratified by 14 states. It also requires formation of the GST Council, containing representatives from both the central and state governments, who will decide the GST rate, the administrative technicalities and take care of dispute resolution.

The work on establishing the technical infrastructure is in progress, and rules including provisions related to valuation are getting finalised; as the government expects the roll out to be on April 1, 2017.

THE RESERVE BANK OF INDIA (RBI) KEEPS KEY POLICY RATES STEADY

In its recent policy meet, the RBI kept the policy repo rate unchanged at 6.5%, while also rendering the cash reserve ratio (CRR) of Scheduled Banks unchanged at 4% of net demand and time liabilities (NDTL). It stated that it would continue to provide liquidity as required, however, would progressively lower the average ex ante liquidity deficit in the system from 1% of NDTL to a position closer to neutrality. The RBI also left unchanged, the reverse repo rate under the Liquidity Adjustment Facility at 6%, and the marginal standing facility (MSF) rate and the bank rate at 7%.

The Bank retained the inflation projections, as given in the June bi-monthly statement, i.e. of a central trajectory towards 5% by March 2017 with upside risks.

THE RBI ISSUES NEW BANK LICENSING GUIDELINES

The RBI issued new licensing guidelines while also opening the on-tap licensing window. The window enables the entities to apply for banking licenses as and when they feel they fulfill the stipulated norms, as against the previous practice of waiting to apply when then RBI invited applications for the same.

The prominent guidelines are as follows:

i) The minimum paid-up capital is `500 crore with 74% as the foreign investment limit.

ii) Private sector entities or groups owned and controlled by resident Indians with a sound track record of 10 years are eligible to apply.

iii) Corporates desirous of applying should have total assets of ₹5,000 crore or more and 60% of their businesses should be engaged in financial services. Those corporates that do not fulfill these criteria can take a 10% stake in such entities.

Some of the relaxed norms:

i) The promoter group or holding company can hold 40% with a five-year lock in, and lower its holding to 30% in 10 years and 15% in 15 years, against 12 years previously.

ii) Individuals and stand-alone NBFCs are now not required to set up a non-operative financial holding company (NOFHC),

iii) The minimum paid-up equity capital norm for a promoter or promoter group stands lowered to 51% from 100%.

Some of the tightened norms:

i) The board is required to have a majority of independent directors, against the previous requirement of minimum 50%.

ii) The regulator's in-principle approval will be valid for 18 months and thereafter lapse.

iii) It is mandatory for the bank to open at least a fourth of its branches in unbanked rural centres and get its shares listed within six years of commencement of business.

RBI INTRODUCES MEASURES TO WIDEN AND DEEPEN INDIA'S CORPORATE BOND MARKET

In line with the HR Khan Committee's recommendations, the RBI has introduced a string of measures to widen and deepen India's dormant corporate bond market. These are in terms of enhancing the aggregate limit of partial credit enhancement (PCE) provided by banks, permitting brokers in corporate bond repos, authorising the platform for repo in corporate bonds and encouraging credit supply for large borrowers through the market mechanism.

Now banks can now issue Rupee bonds overseas (Masala Bonds) for their capital requirements and also for financing infrastructure and affordable housing.

The partial credit enhancement limit provided by banks has been raised to 50% of the bond issue size from 20% earlier, provided that the partial credit enhancement given by any single bank does not exceed 20% of the bond issue size and the extant exposure limits.

To enhance market liquidity the RBI can now accept corporate bonds under Liquidity adjustment facility (LAF).

To enhance participation, the RBI has also allowed brokers to participate in the corporate bond repo market. Foreign portfolio investors (FPIs) are also allowed to access directly the market without going through brokers, as SEBI has agreed to provide them the facility to trade directly in corporate bonds.

Resident and non-resident Indians can cover their exchange-rate risks through simplified hedging transactions up to a limit of $30 million. Additionally, banks can allow them to take an open position limit of up to $5 million.

LOK SABHA PASSES THE ENFORCEMENT OF SECURITY INTEREST AND RECOVERY OF DEBTS LAWS AND MISCELLANEOUS PROVISIONS (AMENDMENT) BILL, 2016

In an attempt to strengthen the insolvency framework and enhance ease of doing business, the Lok Sabha has cleared the Enforcement of Security Interest and Recovery of Debts Laws and Miscellaneous Provisions (Amendment) Bill, 2016. The Bill amends four Acts, viz. i) the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act of 2002, ii) the Recovery of Debts due to Banks and Financial Institutions Act of 1993, iii) the Indian Stamp Act of 1899 and iv) the Depositories Act of 1996.

Amendments to the Recovery of Debts due to Banks and Financial Institutions Act are crucial, as under the Act, disposal of recovery applications needs to be done in 180 days though there are cases pending for years.

The amendment to the Stamp Act seeks to waive off duty on transfer of assets to reconstruction companies.

The Bill enables the secured creditor to claim possession over the assets of a defaulter and establishes the supremacy of this claim over any other claims. Amendments to the SARFAESI Act would enable secured creditors to take possession of loan collateral with the assistance of the District Magistrate within a period of 30 days, and also to take over the management if the lender has secured more than 51% stake in the company through conversion of debt into equity.

The Bill enables the RBI to oversee the asset reconstruction companies, while it also seeks to expedite the resolution process by providing for summons, notices, etc. to be served in electronic forms.

INDIA'S GDP GROWTH RATE SLOWS TO 7.1% IN Q1 2016–17 FROM 7.9% IN Q4 2015–16, FISCAL DEFICIT AT 73.7% OF BUDGET ESTIMATES

Q1 2016–17 GDP growth rate slowed more than expected and stands at 7.1% against 7.9% in the previous quarter and 7.6% in the fiscal year 2015–16 due to muted investment growth and agricultural productivity. This is the slowest pace of growth in five quarters. Though India still stands as the fastest growing major economy, the growth rate is considerably below expectations of a 7.9% rate. The gross value added growth for the quarter is marginally higher at 7.3% against 7.4% in the previous quarter.

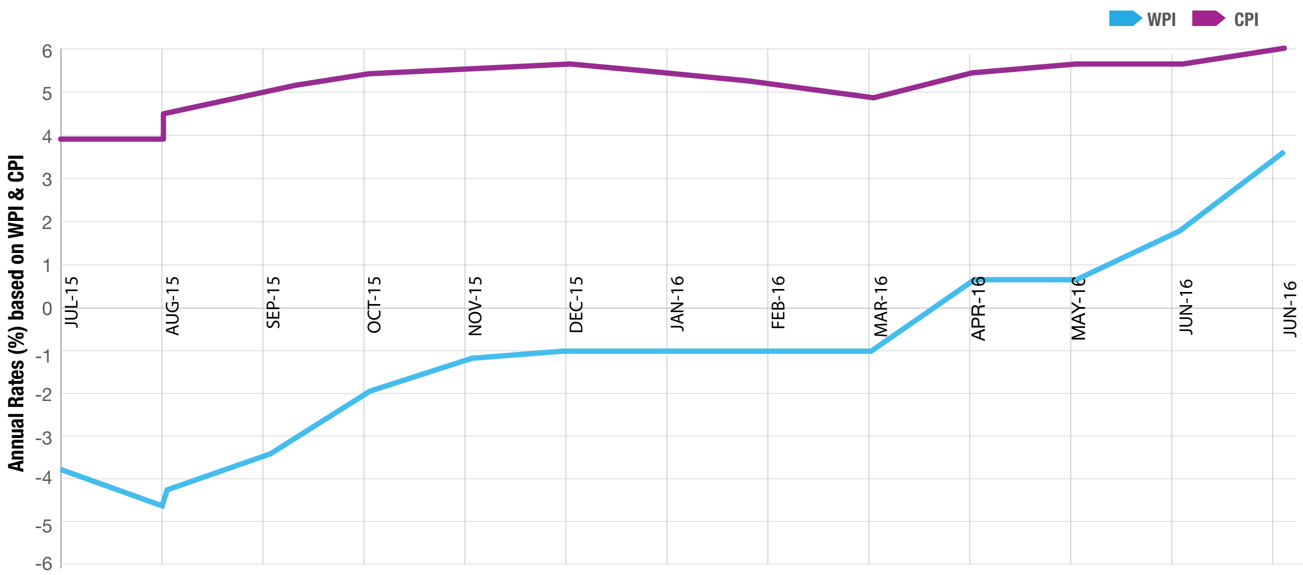
Agriculture grew at a tepid 1.8%. Growth in manufacturing and services stood at 9.1% and 9.6% respectively, while construction grew at a meager 1.5%, whereas growth in mining slipped 0.4%.

Gross fixed capital formation (GFCF), a measure of investment, slipped 3.1% in real terms in the quarter, underlining lukewarm private investment and the fact that efforts to encourage investments by reviving stalled projects and clean up of banks' balance sheets are still to materialise.

The fiscal deficit during the quarter stands at 73.7% of budget estimates for the whole year, against 69.3% in the same quarter last year. The government has set a fiscal deficit target of ` 5.33 lakh crore, or 3.5% of GDP, for the fiscal year 2016–17. The figures may show an improvement from August, when ` 65,875 crore paid by the RBI to the government would be reflected in the accounts. The government had successfully pulled down the fiscal deficit to 3.9% of the GDP (` 32 lakh crore) in 2015–16 from 4.1% in 2014–15 and 4.7% in 2013–14. However, there are challenges in meeting the current target on account of higher payouts under the Seventh Pay Commission's recommendations. The government is also keen on making public capital spends to generate private investment.

INFLATION FIRMS UP – CONSUMER PRICE INDEX (CPI) AT A TWO-YEAR HIGH WHILE THE WHOLESALE PRICE INDEX (WPI) TAKES A DRASTIC LEAP TO 3.55%

INFLATION



Sources: Ministry of Commerce and Industry, RBI

Retail inflation climbed to a two-year high in July 2016. The CPI rose to 6.07% YOY in July 2016 from 5.77% last month 2016 and from 3.69% in July 2015 on account of higher food prices. Food inflation reached 8.25% YOY from 7.79% YOY last month and a meager 2.15% a year ago. High prices of vegetables (14.06%) and pulses (27.53% inflation) and sugar and confectionary (21.91% inflation) contributed substantially to food inflation.

Rural retail inflation too rose to 6.66% YOY in July 2016 from 6.29% in June 2015 YOY and from 4.35% last year.

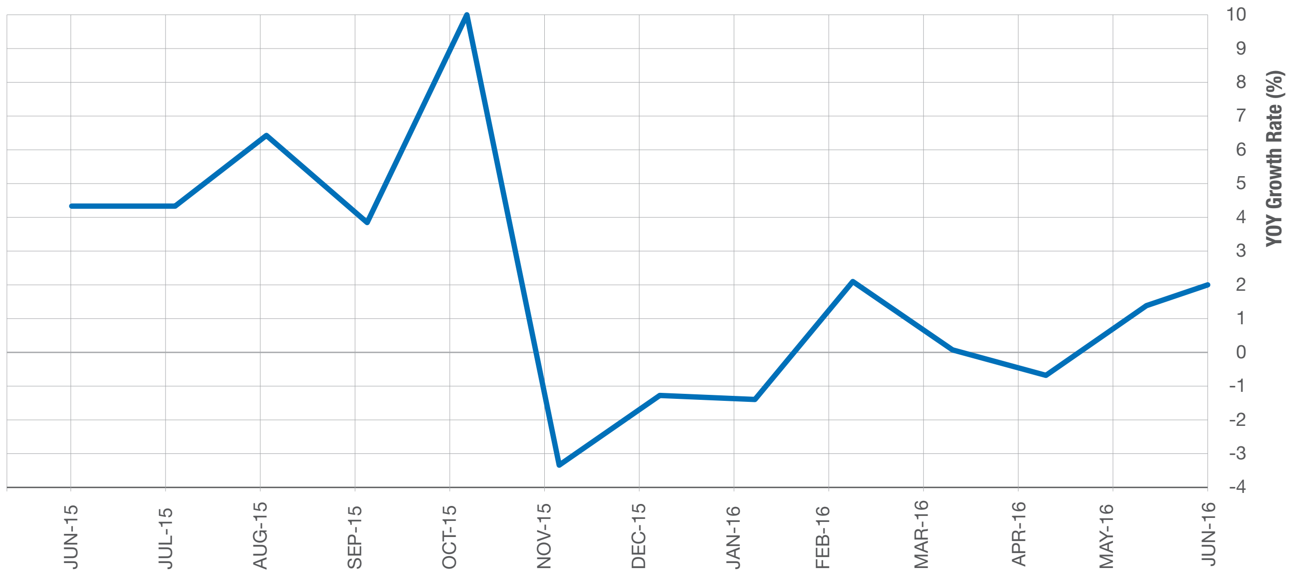
Wholesale inflation, as measured by the WPI, drastically rose 3.55% YOY in July 2016 from 1.62% last month and against -4.00% in July 2015. Build up inflation rate during April–July 2016 stands at 4.91% compared to that of 0.85% in the corresponding period in the previous year.

Inflation in primary articles rose 9.38% in July 2016 YOY from -3.98% last year, while that of manufactured goods stood at 1.82% YOY in July 2016 from -1.54% in July 2015. Inflation in food articles has attained a 30-month high of 11.82%, driven mainly by potato (58.78%), pulses (35.76%), vegetables (28.05%) and cereals (7.03%).

The RBI has set the inflation target of 5% for March 2017, however, there exists upside risks. Hence, it is less likely that the RBI would reduce interest rates soon. The impact of the Seventh Pay Commission payouts is likely to generate larger demand, pushing prices higher. We expect the consumer inflation to stay firm in the range of 6–6.5% in the coming months, though the impact of a better monsoon and higher crop cultivation is likely to be seen in the later months. Wholesale inflation is in line with retail inflation and is expected to continue to increase.

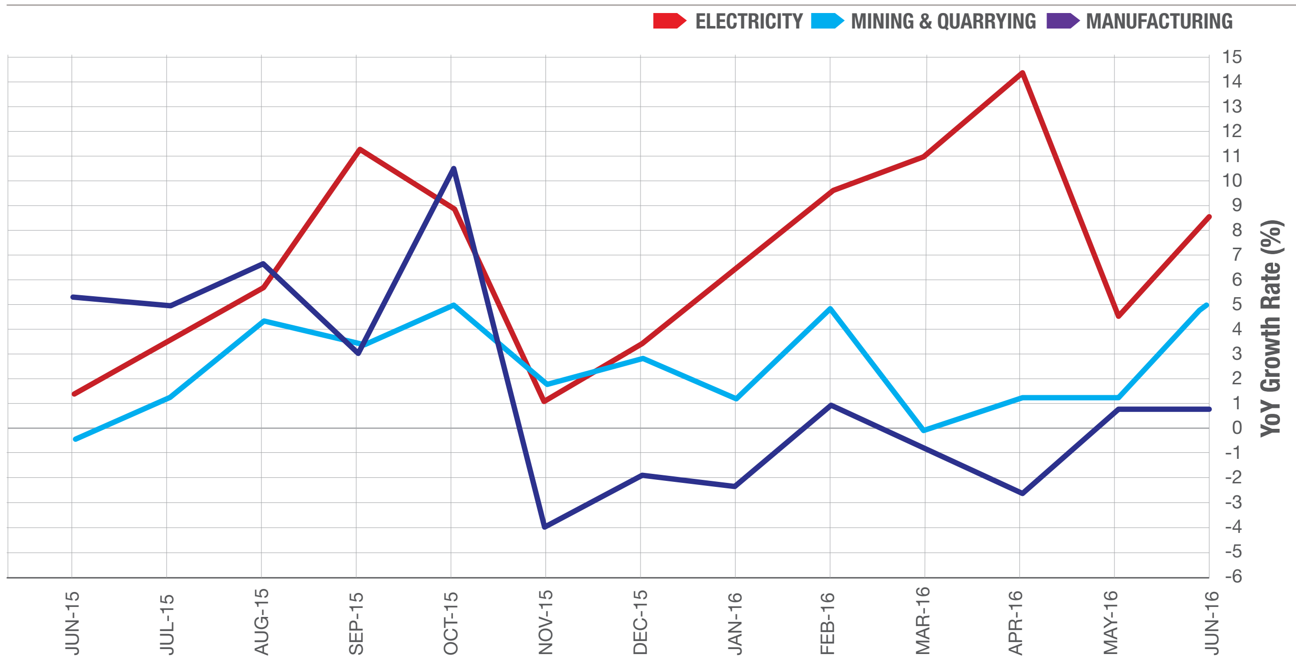
INDUSTRIAL PRODUCTION RESUMES GROWTH TRAJECTORY

IIP (GENERAL INDEX)



Sources: Department of Industrial Policy & Promotion (DIPP), GOI

IIP (SECTOR WISE)



Source: Ministry of Statistics and Programme Implementation & RBI

Industrial production is observed to be resuming the growth trajectory since May 2016 after a slump that extended across a quarter. The Index of Industrial Production (IIP) rose to 2.1% YOY in June 2016 from 1.2% rise witnessed last month. However, it stands far below the 4.2% observed in June 2015.

Manufacturing rose marginally to 0.9% YOY in June 2016 from 0.7% YOY in May 2016 as against 5.2% in June 2015.

Eighteen out of the 22 industry groups in the manufacturing sector have displayed positive growth during June 2016 as compared to June 2015.

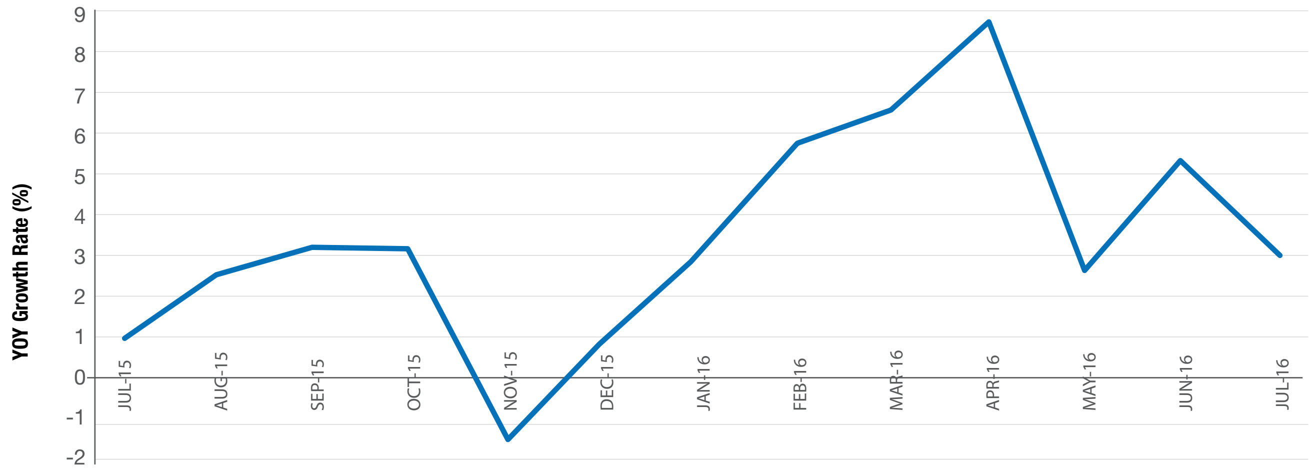
In June 2016, electricity stood at 8.3% YOY against 4.7% last month and against 1.2% a year ago, while mining output stood at 4.7% YOY in June 2016 against 1.3% last month and against -0.4% last year.

Capital goods production fell by 16.5%. Growth in consumer goods production stood at 2.8%, while consumer durables and consumer non-durables grew at 5.6% and 1% respectively. Growth in passenger car sales stood robust as well at 9.62% in July 2016 against 5.8% last month.

Industrial production is expected to accelerate in the near months. A satisfactory out-turn of monsoon may enhance demand and generate a faster recovery of the industrial sector. As on August 31, 2016 the season's rainfall has stood in the normal range though slightly below average, while 86% of the country's area received excess or normal monsoon.

CORE SECTOR GROWTH DECELERATES TO 3.2%

INDEX OF EIGHT CORE INDUSTRIES



Source: Ministry of Commerce & Industry

In July 2016, the Index of Eight Core Industries (which has a 38% weightage in IIP) stood at 173.7, registering 3.2% growth over that in July 2015, though much lower than the 5.2% YOY growth registered in June 2016.

Maximum YOY rise is observed in the production of refinery products (13.7% against 2.9% in July 2015) and coal (5.1% against -0.1% in July 2015, though below the 12% it achieved in June 2016). There is also a rise in production of natural gas (3.3% against -4.4% in July 2015). Growth slowed in the production of fertilizers (2.5% against 8.6% in July 2015 and 9.8% in June 2016), as well as electricity (1.6% against 3.5% in July 2015); while the YOY growth in cement stood stable (1.4%). Growth of production decreased in steel (-0.5% YOY) and crude oil (-1.8% YOY). There is a seasonal effect on the growth of fertilizers and cement.

The core sector growth is in sync with the overall industrial sector growth (as recorded for June 2016). The sector is likely to maintain the momentum with a better out-turn of monsoon and a revival in the investment cycle in the near term.

EXPORTS FALL 6.8% AFTER A BRIEF RISE LAST MONTH

India's exports slipped by 6.8% in July 2016, valuing at US$21,689.57 million against those valued at US$23,281.20 million during July 2015. The cumulative value of exports during April–July 2016–17 made up US$87,001.34 million as against US$90,271.16 million over the same period last year, indicating a fall of 3.62%. Twenty-three of the 30 exporting sectors posted negative growth.

During the month, imports shrank as well by 19.03% making US$29,450.97 million against that of US$36,372.07 million recorded in July 2015. The cumulative value of imports during April–July 2016–17 made up US$113,996.75 million against US$136,252.57 million during the same period last year leading to a negative growth of 16.33%.

Oil imports during June 2016 fell 28.10% YOY to US$6,820.34 from US$9,486.12 million in the corresponding period last year, while non-oil imports were valued at US$22,630.63 million, 15.83% lower YOY. Gold imports fell by -63.65% YOY to US$1078 million.

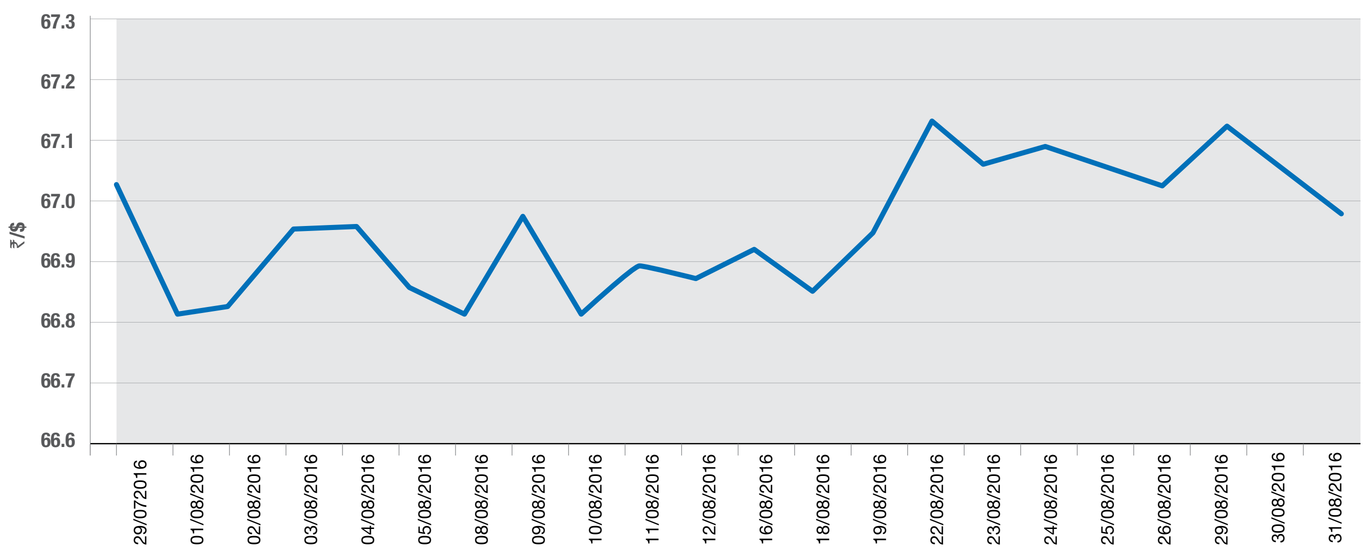
The trade balance in services (i.e. net export of services) for June 2016 was valued at US$4,933 million. The net export of services for April–June 2016–17 stood at US$16,196 million against that of US$16,487 million during April–June 2015–16.

The trade deficit (for merchandise and services) narrowed during April–July 2016 and stood at US$10,799.41, lower by 63.4% against the US$29,494 million recorded during April–July 2015.

Slowing exports continue to pose concerns. Exports are likely to stay tepid on account of global and Chinese slowdown, while low commodity prices may pull down exports further. Oil imports show a decline of more than 25%; however, oil prices are gradually firming up. Though gold imports too have fallen currently, they are expected to pick up in the ensuing festive season. The trade gap would be improved if India diversifies its exports to the countries other than the traditional export destinations.

CURRENCY

CURRENCY TREND

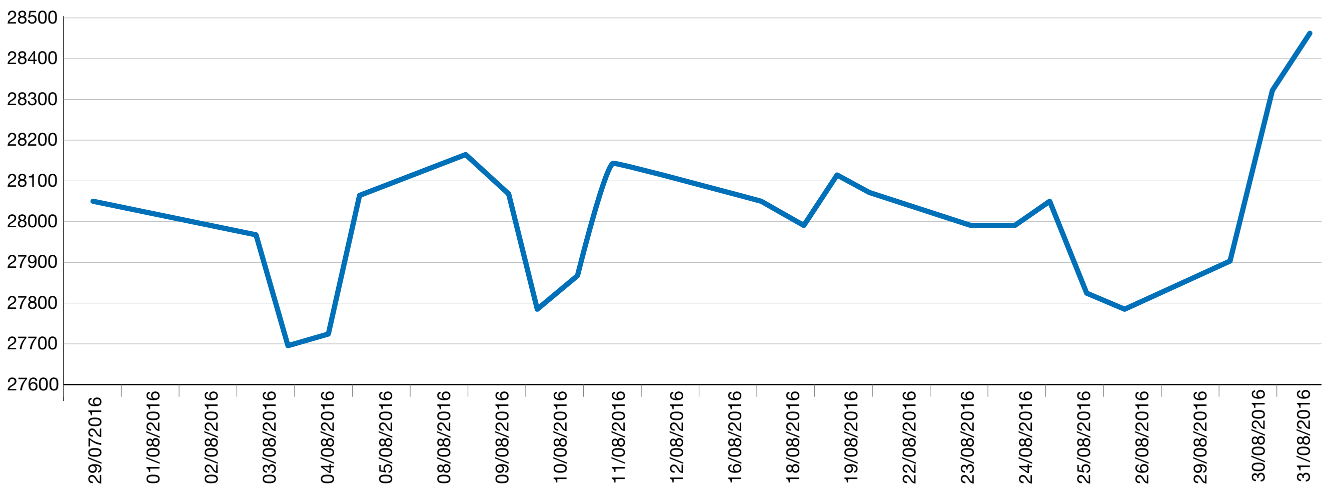


Source: RBI

During August, the rupee weakened by 0.08% against the dollar. The hawkish statements by the US Federal Reserve on the expectations of an interest rate hike kept the gains tepid.

SENSEX

S&P BSE SENSEX



Source: BSE

During August 2016, the Sensex gained by 1.43%.

GOVERNMENT APPROVES DRAFT REAL ESTATE AGREEMENT RULES FOR UNION TERRITORIES

The Ministry of Housing & Urban Poverty Alleviation has approved the Draft Agreement for Sale Rules, 2016 applicable for the Union Territories of Chandigarh, Andaman & Nicobar Islands, Daman & Diu, Dadra and Nagar Haveli and Lakshadweep. The government, however, will seek public opinion before finalising the notification.

The Draft Rules stipulate the following:

i) The promoter should clearly indicate the date of delivery of possession to the allottee in the agreement itself, though he can get an extension of this date in case of delays caused due to war, floods, drought, fire, cyclone, earthquake or any other natural calamity.

ii) The agreement will have a clear mention of the date of grant of commencement certificate, clear land title giving the area of project and ***Khasra*** numbers, number of storeys and plots in the project, carpet area and common area, share of allottee in the common area, total price, etc.

iii) The total price is defined as including cost of land, cost of construction of apartment and common areas, internal and external development charges, taxes, cost of electric wiring and fire-fighting equipment. This price is escalation-free, except when development changes are altered.

THE MAHARASHTRA HOUSING AND AREA DEVELOPMENT AUTHORITY (MHADA) INVITES APPLICATIONS FOR AFFORDABLE HOMES, THE VAST DEMAND-SUPPLY MISMATCH NOTICED

Under one of its lottery scheme, MHADA invited applications for 972 affordable homes costing `8.20–84 lakhs in Mumbai's suburban locations, including Borivali, Dahisar, Goregaon, Malad, Mankhurd, Chembur, Kurla and Powai with the residential units' area spread over 180 to 800 sq ft. MHADA received over 1.35 lakh applications. This is the third in the series of lotteries that MHADA has issued in the current calendar year and with this, MHADA claims to have supplied a total of 7,695 affordable homes to citizens.

With the government's policy of 'Housing for All by 2022', tax incentives to first time homebuyers and the vast demand-supply mismatch, there is immense business opportunity for the developers.

म्हाडा
MHADA

APPENDICES

1. INFLATION

	WPI	CPI
Jul-2016	**3.55**	**6.07**
Jun-2016	1.62	5.77
May-2016	0.79	5.76
Apr-2016	0.79	5.47
Mar-16	-0.45	4.83
Feb-16	-0.85	5.18
Jan-16	-1.07	5.69
Dec-15	-1.06	5.61
Nov-15	-1.99	5.41
Oct-15	-3.70	5.00
Sep-15	-4.59	4.41
Aug-2015	-5.06	3.66
Jul-2015	**-4.00**	**3.69**
WPI Base Year = 2004-05, CPI Base : 2012 = 100		

Source: Ministry of Commerce & Industry and Ministry of Statistics and Programme Implementation

2. IIP

INDEX OF INDUSTRIAL PRODUCTION – GROWTH RATE				
	General Index	Mining & Quarrying	Manufacturing	Electricity
Jun 2016	**2.1**	**4.7**	**0.9**	**8.3**
May 2016	1.2	1.3	0.7	4.7
Apr 2016	-0.8	1.4	-3.1	14.6
Mar 2016	0.1	-0.1	-1.2	11.3
Feb 2016	2.0	5.0	0.7	9.6
Jan 2016	-1.5	1.2	-2.8	6.6
Dec 2015	-1.3	2.9	-2.4	3.2
Nov 2015	-3.4	1.9	-4.7	0.7
Oct 2015	9.9	5.2	10.6	9.0
Sep 2015	3.7	3.5	2.7	11.4
Aug 2015	6.3	4.5	6.6	5.6
Jul 2015	4.3	1.3	4.8	3.5
Jun 2015	**4.2**	**-0.4**	**5.2**	**1.2**

Source: Ministry of Statistics and Programme Implementation, RBI

3. CORE SECTOR

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**
16-Jul	**5.1**	**-1.8**	**3.3**	**13.7**	**2.5**	**-0.5**	**1.4**	**1.6**	**3.2**
16-Jun	12	-4.3	-4.5	3.5	9.8	2.4	10.3	8.1	**5.2**
16-May	5.5	-3.3	-6.9	1.2	14.8	3.2	2.4	4.6	**2.8**
16-Apr	-0.9	-2.3	-6.8	17.9	7.8	6.1	4.4	14.7	**8.5**
16-Mar	1.7	-5.1	-10.5	10.8	22.9	3.4	11.9	11.3	**6.4**
16-Feb	3.9	0.8	1.2	8.1	16.3	-0.5	13.5	9.2	**5.7**
16-Jan	9.1	-4.6	-15.3	4.8	6.2	-2.8	9	6	**2.9**
15-Dec	6.1	-4.1	-6.1	2.1	13.1	-4.4	3.2	2.7	**0.9**
15-Nov	3.5	-3.3	-3.9	2.5	13.5	-8.4	-1.8	0	**-1.3**
15-Oct	6.3	-2.1	-1.8	-4.4	16.2	-1.2	11.7	8.8	**3.2**
15-Sep	1.9	-0.1	0.9	0.5	18.1	-2.5	-1.5	10.8	**3.2**
15-Aug	**0.4**	**5.6**	**3.7**	**5.8**	**12.6**	**-5.9**	**5.4**	**5.6**	**2.6**
15-Jul	**-0.1**	**-0.4**	**-4.4**	**2.9**	**8.6**	**-1.4**	**1.4**	**3.5**	**1.3**

Source: Ministry of Commerce & Industry

RESEARCH

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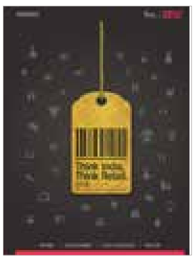
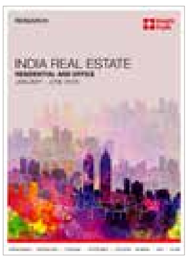


Think India Think Retail 2016



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