

MONTHLY UPDATE
MAY 2016



GROWTH AMID COMFORTS AND CONCERNS IN INDIA



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The current comfortable oil prices may disappear soon, with prices reaching \$50 per barrel. Much anxiety prevails ahead of the US Fed meet slated in June over the Fed's stand on the key interest rates. The Brexit vote, slated for 23 June, also portends economic and political uncertainty in Europe and across the globe, with international institutions and leaders asking the UK for a 'strong Britain within a united eurozone'.

The Indian economy grew higher than expected, at 7.9% in Q4 2015-16 and 7.6% during the fiscal 2015-16 against 7.3% last year. Analysts claim that India's pace is ahead of China's;

however, the reference to China may not suit economic logic, given the difference in the size of the two economies and the stages of their economic growth. India's growth trajectory is picking up amidst comforts and concerns. Despite the rise in the GDP, the growth in investments stays muted. The fiscal deficit target (3.9% of the GDP) for the last fiscal year, which is much lower than the levels attained in 2013-14 (4.7% of the GDP), has been achieved. The government has set a target of 3.5% for the current year. The inflation target of 6% has also been achieved, with the RBI setting a fresh target of 5% for 2016-17. However, the tamed inflation is gradually

increasing with a push from food inflation, rendering the RBI wary. The core sector growth is robust, but crucial sectors, such as coal and steel, have not picked up. Manufacturing shows poor progress. Trade deficit has tapered to a five-year low, but consistently low exports and rising oil prices pose concerns. With food and fuel set to decide India's key policy rates, they are less likely to be slashed by the RBI in the upcoming policy meet/s.

On the political canvas, poll results in Assam and other states have strengthened the government's position, making it easier for the passing of the GST and other crucial

legislations, such as the bankruptcy law. However, it is also time for public enterprise reforms—boosting manufacturing and core sector production, and a firmer push to real estate and infrastructure—to trigger private investments, create an oil policy and, if required, pursue oil diplomacy.



GLOBAL UPDATE

GREECE AGAIN IN AUSTERITY MODE

Greece has adopted pension cuts and tax hikes amid outstanding creditor demands and the need to secure the next tranche of bailout funds. The move is facing strong resistance from the population and the opposition party, as it is expected to reduce Greece's pension payouts, merge several pension funds and raise taxes on medium and high incomes. This is part of the latest fiscal discipline norms mandated by the European Union and International Monetary Fund in exchange for the third tranche (since 2010) of bailout funds worth €86 billion (\$95 billion) for Greece as agreed in July 2015.

The austerity reforms aim at cutting pension spending by about 2 percentage points, taking it to around 15% of the country's GDP by 2019, while also introducing unified retirement rules. The government also aims to lower the

income tax-free threshold or personal allowance to an average of around €8,800 from around €9,500.

ANXIETY AHEAD OF BREXIT LEADING TO UNCERTAINTY IN THE EUROZONE

The Brexit vote is slated for 23 June 2016. Whether the UK stays in the EU or not will decide the course of developments in the eurozone in the coming months. However, the anxiety currently surrounding the issue is prompting spells of instability and uncertainty in the financial markets, including volatility in the pound sterling vis-à-vis the euro and the US dollar. The issue also poses political uncertainty in the region, and international agencies and prominent leaders have advised the UK on the benefits of a 'strong UK in a united eurozone'.

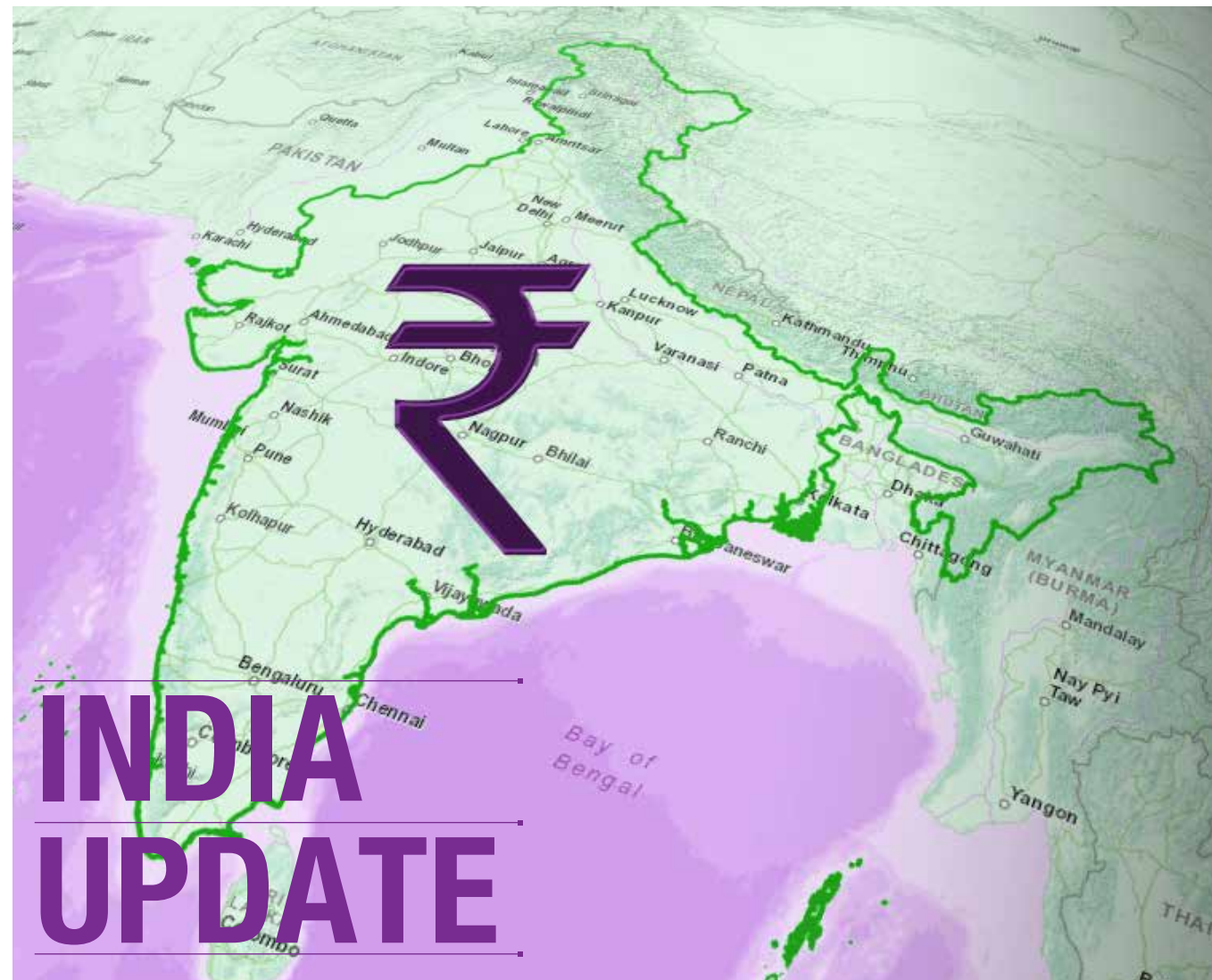
OIL – AN INCREASING CONCERN

EUROPE BRENT SPOT PRICE



Source: U.S. Energy Information Administration

Oil prices have been on an upturn since the last couple of months, rising by over 11% from the end of April to the end of May, with prices close to \$50 per barrel during the period. The phase of comfortable oil prices leading to falling import bills and a decreasing trade gap seems to be coming to a close for India.



GDP AT 7.6% IN 2015-16 AND HIGHER THAN EXPECTED 7.9% GROWTH IN Q4, FISCAL DEFICIT IN CONTROL AS TARGETED

India's GDP grew 7.6% in 2015-16 from 7.3% last fiscal, while the growth in the last quarter of the fiscal year stood at 7.9%, recording the fastest growth of the economy in the last five years. The GDP growth for the first and second quarters stands revised at 7.5% and 7.6% from 7.6% and 7.7%, respectively. However, investment growth stayed muted at 3.9% from 4.9% in FY 2014-15. Manufacturing growth stagnated at 9.3% in Q4 2015-16 from 11.5% in the previous quarter.

The government is also on track with the fiscal deficit target, having pulled down the fiscal deficit to 3.9% of the GDP (₹5.32 lakh crore) in 2015-16 from 4.1% in 2014-15 and 4.7%

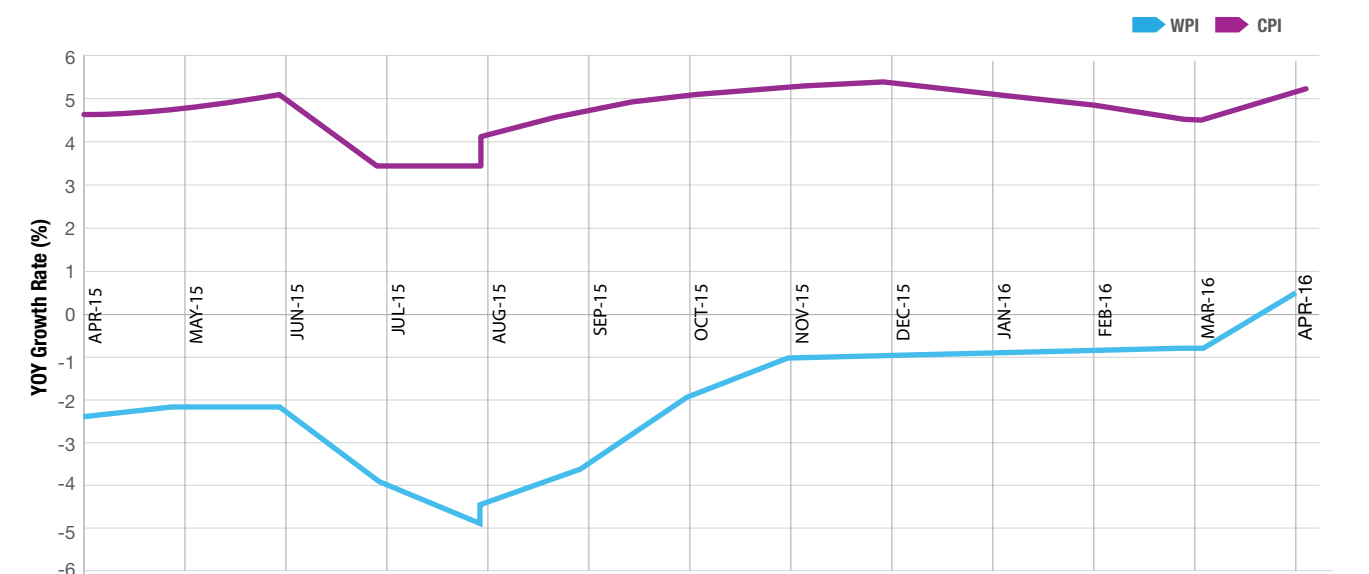
in 2013-14. In April 2016, the fiscal deficit stood at 25.7% of the budget estimate. The set fiscal deficit target for 2016-17 is 3.5% of the GDP (₹5.33 lakh crore).

INFLATION RISING – CPI EDGES UP WHILE WPI ENTERS THE POSITIVE ZONE

The annual rate of wholesale inflation entered into positive territory at 0.34% in April 2016 from -0.85% in the previous month, and as compared to -2.34% in April 2015. The build-up inflation rate in the financial year so far stood at 1.37%, compared to 0.17% in the corresponding period of the previous year.

The rise in food prices pushed the WPI into the positive zone in April 2016. Wholesale inflation in primary articles (weight 20.12%) rose to 2.34% from 2.13% in the previous month,

INFLATION



Sources: Ministry of Commerce and Industry, RBI

while that in food articles rose to 4.23% from 3.73%. WPI inflation in fuel and power (weight 14.91%) and manufacturing products (64.97%) rose to -4.83% and 0.71% in April from -8.30 and -0.13%, in the previous month respectively.

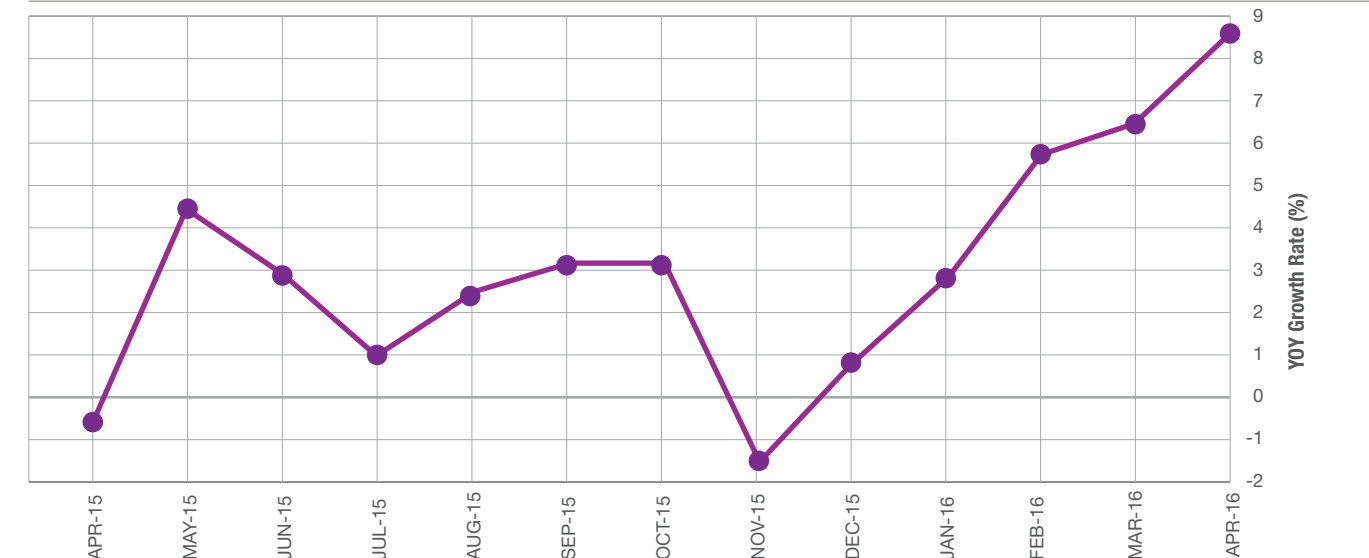
In April 2016, retail inflation rose to 5.39% YOY from the 4.87% YOY recorded in the same month last year, and from the 4.83% recorded last month. Inflation in food moved up to 6.32% YOY in April 2016, as against the 5.11% YOY in the same month last year, and the 5.21% YOY recorded last month. Food inflation, which started easing from the second

half of 2015-16, is now gradually firming up and adding to the overall retail inflation. Though the CPI inflation has stayed within the 6% target set by the RBI, it has started posing concerns, and the RBI is less likely to ease the key interest rates in the upcoming policy meet.

We expect retail inflation to stay around 5.50% in the coming months, provided that the food inflation remains stable. The upcoming monsoon is expected to lend stability to retail, and particularly, to food inflation.

CORE SECTOR UPBEAT FOR THE FIFTH CONSECUTIVE MONTH, GROWTH AT 8.5% IN APRIL

INDEX OF EIGHT CORE INDUSTRIES



Sources: Press Information Bureau, GOI

In April 2016, the Index of Eight Core Industries (which has a 38% weightage in IIP) rose 8.5% higher YOY. Its cumulative growth from April 2015 to March 2016 made up 2.7%. The maximum rate of growth in production has been observed in refinery products (17.9%), followed by electricity (14.7%). The growth in the natural gas sector, which had picked up in February after a slump, continues to stagnate (-6.8%) the most. This is followed by a fall in the growth of crude oil (-2.3%) and coal production (-0.9%).

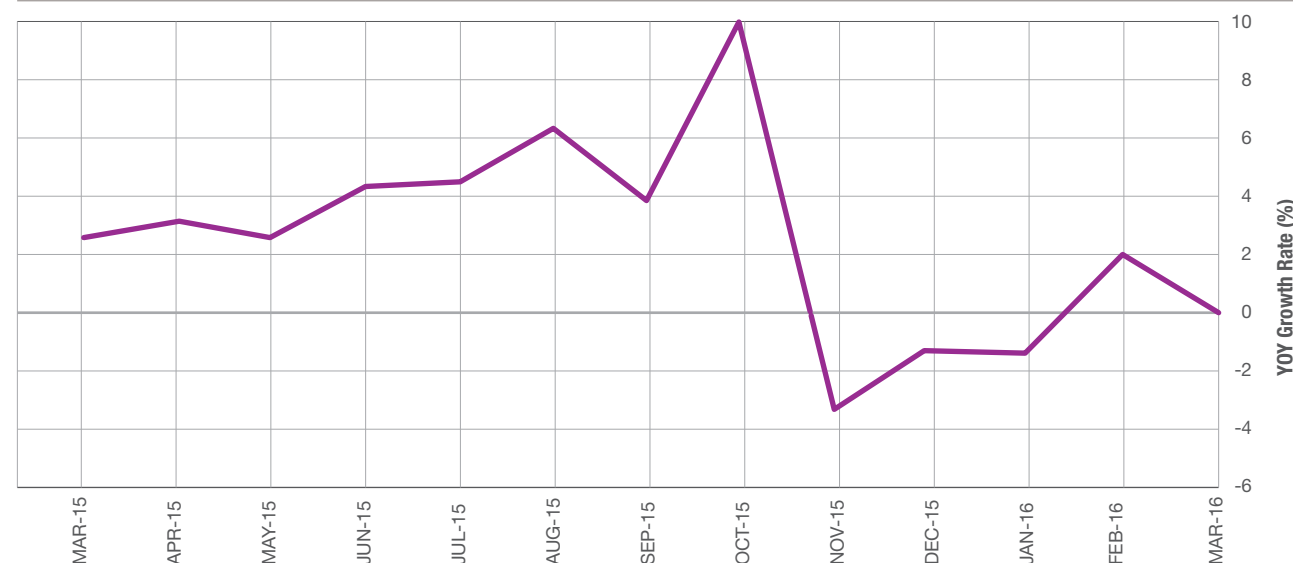
Steel production picked up during the month (6.1%). However,

the growth of the production of cement has stagnated from 11.9% in March to 4.4% in April, indicating sluggishness in the real estate sector.

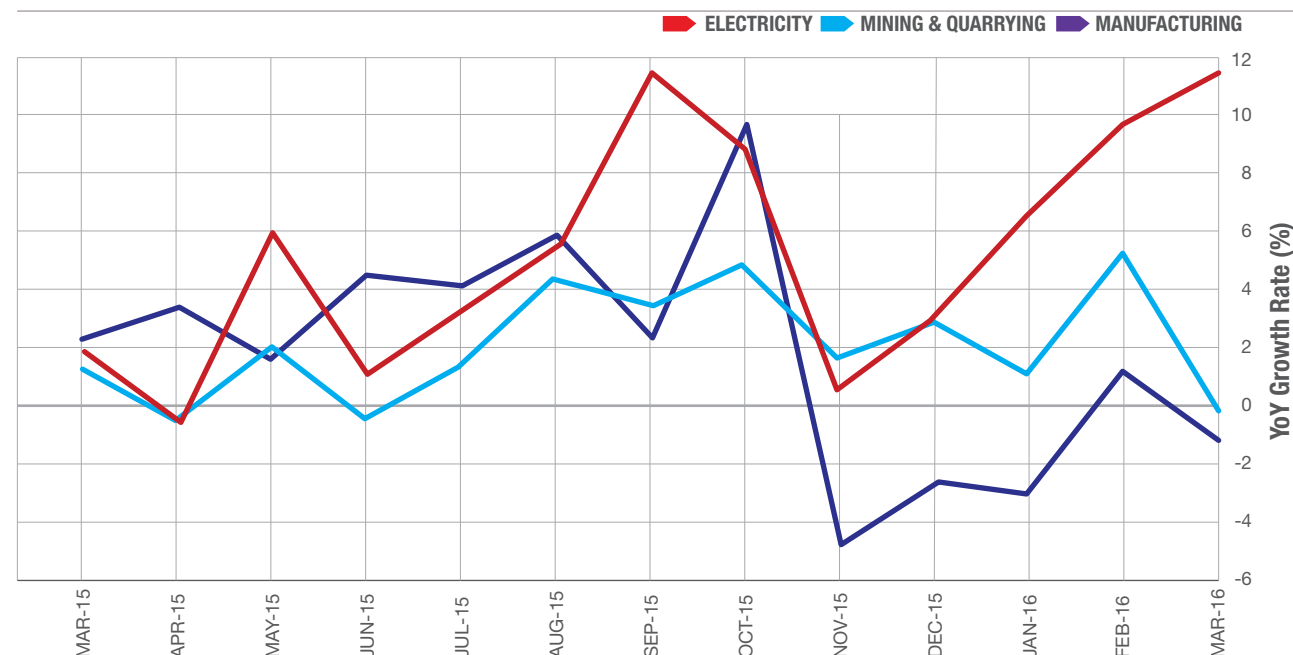
The core sector growth is expected to firm up in the near term. Current data from the government indicates that private consumption and public expenditure have been fuelling the economy. However, a pickup in private investment is required and is expected, with a reversal in the investment cycle, the onset of a normal monsoon and a policy-level push to public sector enterprise reforms.

IIP – MUTED INDUSTRIAL PRODUCTION, MANUFACTURING A CONCERN

IIP (GENERAL INDEX)



IIP SECTOR WISE



Source: Ministry of Statistics and Programme Implementation & RBI

The IIP for March 2016 stands 0.1% higher than in March 2015. The cumulative growth for the period April 2015 to February 2016 compared to the corresponding period in the previous year is 2.4%. The rate of growth in industrial production has slowed down, as the IIP for February 2016 stood 2% higher than in February 2015.

The sector-wise IIP for the mining, manufacturing and electricity sectors stood at -0.1%, -1.2% and 11.3% YOY, respectively, in February 2016. The growth in these sectors during the period April 2015 – February 2016 as compared to that in the corresponding period of 2014-15 stands at 2.2%, 2.0% and 5.6%, respectively.

Industrial production has improved significantly in the electricity sector during March 2016, though the mining and manufacturing sectors have stayed subdued.

Industrial production is expected to pick up with a revival in demand and the investment cycle, and the onset of a normal monsoon.

EXPORTS FALL FOR THE 17TH STRAIGHT MONTH THOUGH TRADE DEFICIT AT A FIVE-YEAR LOW

Exports dipped further by 6.74% in April to \$20.57 billion from \$22.05 billion in April 2015.

Imports fell by 23.10% to \$25.41 billion from \$33.04 billion in April 2015. Gold imports fell by 60.47% to \$1.23 billion due to a nationwide strike by jewellers against the proposed 1% excise duty. Non-oil imports fell 22.83%, while oil imports slumped 24.1%.

RBI data shows that the trade balance in services (net export of services) for March 2016 stood at \$4.990 billion.

The trade deficit (for merchandise and services) shrank for the fourth straight month. The trade deficit for April 2015 – March 2016 stood at \$48.87 billion, 20.03% below the \$61.10 billion recorded during April 2014 – March 2015.

Government data shows that India has a trade deficit with 27 countries, including China, Australia, Iraq, Iran, Indonesia, Korea, Germany, Canada, Taiwan, Russia and Ukraine during the last three years. Typically, these are the countries from which India imports high-demand commodities, such as crude oil, gold, diamonds and fertilisers.

Though falling exports is in keeping with the current global trend, it poses concerns for India, which are exacerbated by the rising oil prices.

Exports are likely to stay muted in the near term on account of the global slowdown and falling Chinese demand.

NEW LAW ON BANKRUPTCY

The Rajya Sabha passed the Insolvency and Bankruptcy Code, 2016, which now awaits the President's assent. The ensuing law will assist the time-bound settlement of

insolvency cases, as it proposes changes in India's debt recovery and enforcement laws. It is not only expected to help clear India's banking debt problem but also enhance the ease of doing business in the country.

Replacing the existing bankruptcy laws, including the Companies Act, 2013, the Code will cover individuals, companies, limited liability partnerships and partnership firms.

The bill proposes to set up the Insolvency and Bankruptcy Board of India to act as a regulator to address corporate and individual insolvency with inset time frames. The Code also provides for addressing cross-border insolvency through bilateral agreements with other countries.

Under the Code, bankruptcy applications will have to be filed within three months as compared to the earlier six months. The Code also secures workers' interests by ensuring that the money due to workers and employees from provident funds, pension funds and gratuity funds will not be included in the estate of the bankrupt company or individual. It also ensures that if a company liquidates its assets, then the workers' salaries for up to 24 months should be given priority, ahead of secured creditors. The Code also proposes to disqualify any one declared bankrupt from holding public office.

MAURITIUS TAX TREATY AMENDED, AMENDMENTS WILL ALSO APPLY TO THE INDIA-SINGAPORE TREATY

The 1983 India-Mauritius treaty stands amended and will be applicable from 1 April 2017. The amendments will enable the taxation of capital gains on investments channelled through Mauritius from 1 April 2017. Investments made before this date will be grandfathered and will continue to receive benefits.

Though the amendments may make investors wary, they will help in enhancing the government's tax revenues in the long run. This would prove to be a crucial leverage, as more than two-thirds of the investments through P-notes or offshore derivative instruments (ODIs) to India are routed through Mauritius and Singapore. Due to the grandfathering clause, the amendments will attract larger investment flows, including long-term portfolio investments, to the country till 31 March 2016. On the other hand, startups and companies that are heavily dependent on foreign investments may choose to register abroad to avoid tax implications for investors.

The amendments will also apply to the India-Singapore treaty, as it links the capital gains tax regime to the one provided in the treaty.

VEHICLE SALES GROW OVER 20% IN APRIL, ROBUST DEMAND FOR UTILITY

Passenger vehicle sales in India grew over 11% in April, to 242,060 units, supported by a robust 43% rise in the sale

of utility vehicles. Sales in the utility vehicles segment stood at 62,170 units, though the growth in the passenger cars segment stayed subdued at 1.87%. The sale of utility vehicles has been rising since October 2015.

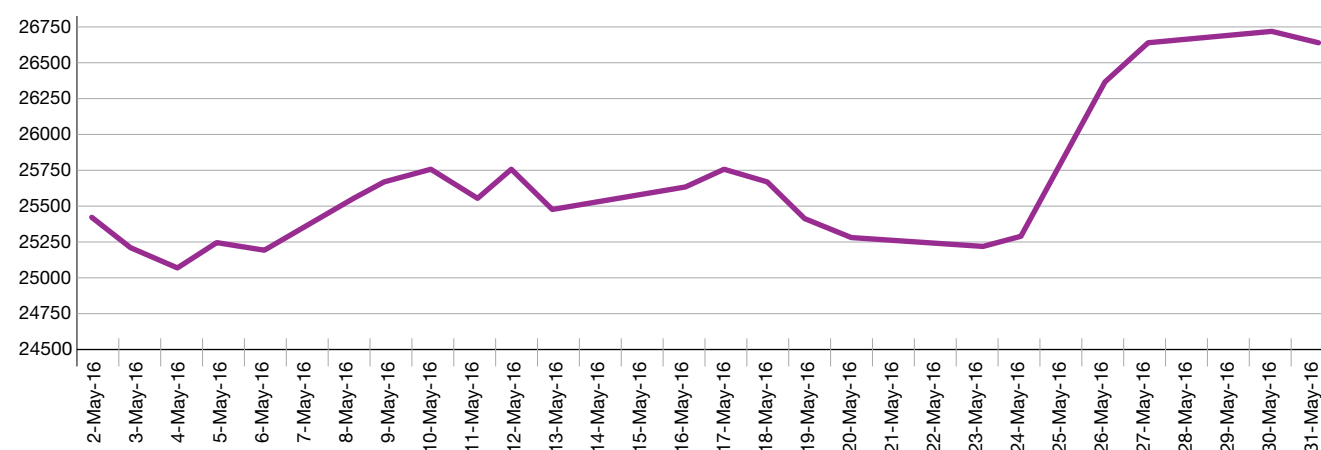
Two-wheeler sales grew more than 21% to 1,560,339 units in April. The sale of motorcycles recorded the fastest growth in 18 months by growing more than 16% to 1,024,926 units.

The sale of commercial vehicles grew over 17% to 53,835 units in April on account of replacement demand and a revival in sales to infrastructure and mining sectors.

The overall vehicle sales across the various categories grew over 20% to 1,900,879 units. However, weaker sentiments, particularly in rural markets, pose concerns.

SENSEX

S&P BSE SENSEX

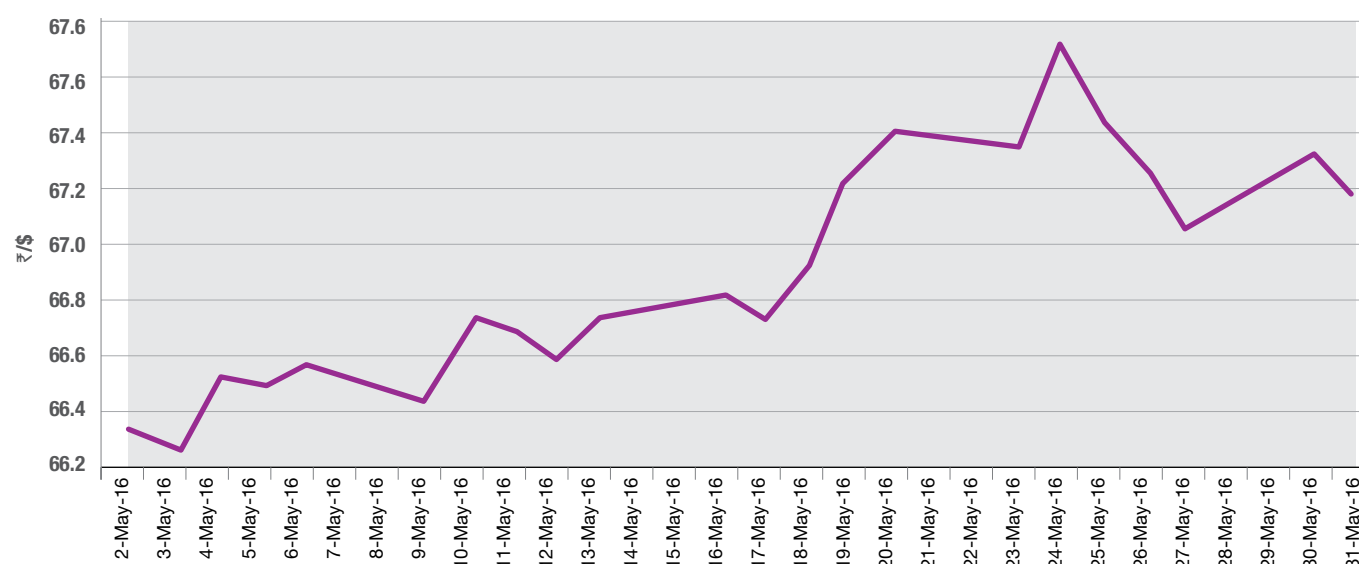


Source: BSE

The Sensex rose by around 4.84% in May. The benchmark equity indices dropped during the month, as investors were concerned about the government's announcements relating to the amendments to the Mauritius Tax Treaty and a similar move to amend the treaty with Singapore, when the Sensex slipped by almost 0.7% towards 25,600. The Sensex also fell after the release of the data on inflation, as hopes of a rate cut faded in the coming months.

CURRENCY

CURRENCY TREND



Source: RBI

In May, the Indian rupee lost 1.30% against the US dollar.



INDIA INFRASTRUCTURE & REALTY UPDATE

DEVELOPERS CAN NOW RAISE CAPITAL FROM THE PUBLIC, SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI) PRESCRIBES LISTING NORMS FOR INFRASTRUCTURE INVESTMENT TRUSTS (INVITS)

SEBI has released certain norms for the public issue InvIT units. It has stipulated that 5% of the units can be offered to institutional investors in public issues by InvITs, while the rest can be offered to any other class of investors.

The move will serve as a green signal to developers to launch InvITs and raise capital.

Anchor investors, such as mutual funds, insurance firms and pension funds, can participate as strategic investors in the public issue of an InvIT if they buy units worth at least ₹10 crore. The allocation to anchor investors will be done on a discretionary basis, wherein a minimum of two investors will be required for the allocation of up to ₹250 crore, and a minimum of five anchor investors for the allocation of more than ₹250 crore. SEBI has stated that a public issue by an InvIT can be kept open for at least three working days and up to 30 days.

PLAN FOR VARANASI METRO

A report by the Ministry of Urban Development suggests The government has approved a plan for a metro service in Varanasi at an estimated cost of ₹12,350 crore. In consultation with the Uttar Pradesh government, the Central Government has extended the provisions of the Metro Railways (Construction of Works) Act, 1978, to the metropolitan areas of Varanasi and Kanpur. Construction work is expected to begin from December 2016.

SOPS TO TOWNSHIP DEVELOPERS IN MAHARASHTRA

- The Maharashtra Cabinet has cleared its integrated township policy, which will give immense sops to developers owning over 40 hectares of land, in return for making them responsible for providing water, electricity, solid waste management, hospitals, parks and other facilities in the township. Builders seeking perks under the new policy should own land that is contiguous.

The perks to the developers are as follows:

- For a township of 40 hectares, the developer will get 70% of the basic permissible FSI. A developer owning 200–500 hectares of land will be given 80% of the FSI, and those owning over 500 hectares will be given 100% of the FSI.

- The developers will be required to seek permission for the conversion of agricultural land to non-agricultural. They will be required to pay only 50% of the development charges.
- Developers will be free to buy land directly from farmers. The state will also consider giving government land if the project is surrounded by such land.

In return, developers will have to:

- Construct houses of 322 sq ft and 538 sq ft, respectively, for the economically weaker sections (EWS) and low-income groups;
- Provide social housing at 20% of the total construction of the FSI;
- Abide by policy specifications pertaining to the amount of land allotted for schools, hospitals and other facilities; and
- Provide for the creation of non-polluting industries for employment generation.

The policy stipulates that projects should be cleared by the collector within 45 days from the receipt of the application or while remarks on the master plan should be sent by the divisional joint director of town planning to the collector within two months.

The state government proposes to levy a premium of 20% on projects being developed on hilltops, hill slopes and in afforestation zones. A premium of 10% will be levied on projects coming up in public, semi-public and industrial zones, and a premium of 15% on those being set up on agricultural land.

The state government also proposes a 50% cut in the stamp duty for property buyers.

GOVERNMENT'S APPROVAL FOR NEW AIRPORTS

The Government of India (GoI) has granted an 'in-principle' approval for setting up 14 Greenfield airports – at Mopa in Goa; Navi Mumbai, Shirdi and Sindhudurg in Maharashtra; Shimoga, Gulbarga, Hassan and Bijapur in Karnataka; Kannur in Kerala; Pakyong in Sikkim; Datia/Gwalior (cargo) in Madhya Pradesh; Kushinagar in Uttar Pradesh; Karaikal in Puducherry; and Dholera in Gujarat. The government has also laid down the Route Dispersal Guidelines (RDG) for Scheduled Air Operators, given the enormous need for air transport services in different regions of the country.



APPENDICES

1. INFLATION

	WPI	CPI
Apr-2016	0.34	5.39
Mar-16	-0.85	4.83
Feb-16	-0.91	5.18
Jan-16	-0.90	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
Jun-2015	-2.13	5.40
May-2015	-2.20	5.01
Apr-2015	-2.43	4.87
WPI Base Year = 2004-05, CPI Base: 2012 = 100		

Source: Ministry of Commerce & Industry and RBI

2. IIP

INDEX OF INDUSTRIAL PRODUCTION – GROWTH RATE				
	General Index	Mining & Quarrying	Manufacturing	Electricity
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
May-2015	2.5	2.1	2.1	6.0
Apr-2015	3.0	-0.6	3.9	-0.5
Mar-2015	2.5	1.2	2.7	2.0

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
Apr-16	-0.9	-2.3	-6.8	17.9	7.8	6.1	4.4	14.7	8.5
Mar-16	1.7	-5.1	-10.5	10.8	22.9	3.4	11.9	11.3	6.4
Feb-16	3.9	0.8	1.2	8.1	16.3	-0.5	13.5	9.2	5.7
Jan-16	9.1	-4.6	-15.3	4.8	6.2	-2.8	9.0	6.0	2.9
Dec-15	6.1	-4.1	-6.1	2.1	13.1	-4.4	3.2	2.7	0.9
Nov-15	3.5	-3.3	-3.9	2.5	13.5	-8.4	-1.8	0.0	-1.3
Oct-15	6.3	-2.1	-1.8	-4.4	16.2	-1.2	11.7	8.8	3.2
Sep-15	1.9	-0.1	0.9	0.5	18.1	-2.5	-1.5	10.8	3.2
Aug-15	0.4	5.6	3.7	5.8	12.6	-5.9	5.4	5.6	2.6
Jul-15	0.3	-0.4	-4.4	2.9	8.6	-2.6	1.3	3.5	1.1
Jun-15	6.3	-0.7	-5.9	7.5	5.8	4.9	2.6	0.2	3.0
May-15	7.8	0.8	-3.1	7.9	1.3	2.6	2.6	5.5	4.4
Apr-15	8.1	-2.5	-3.6	-2.9	-0.04	0.01	-1.4	-0.5	-0.2

Press Information Bureau, GOI



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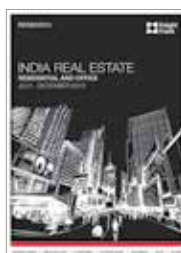
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