

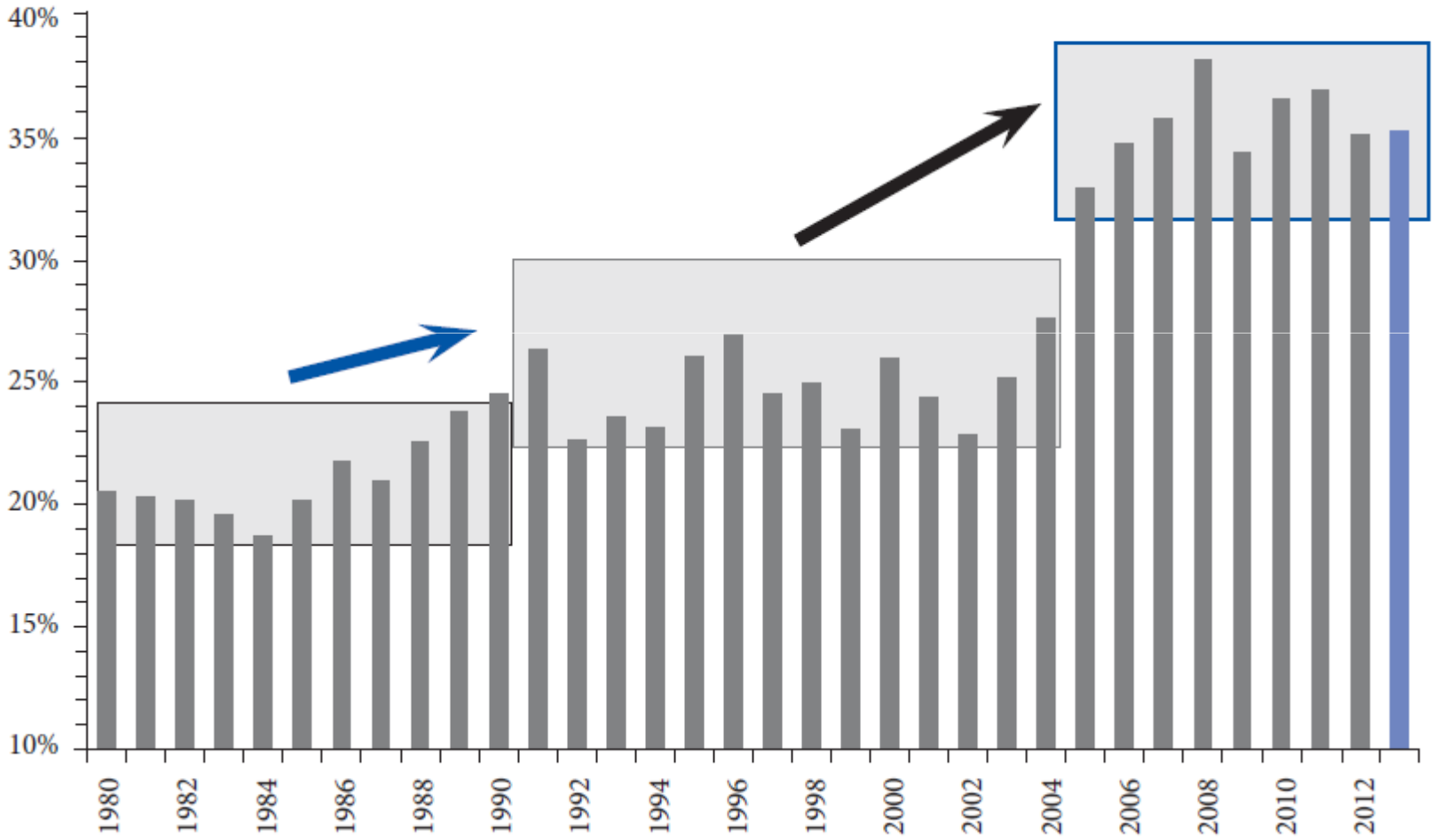


# Incentive to invest and 12<sup>th</sup> FYP

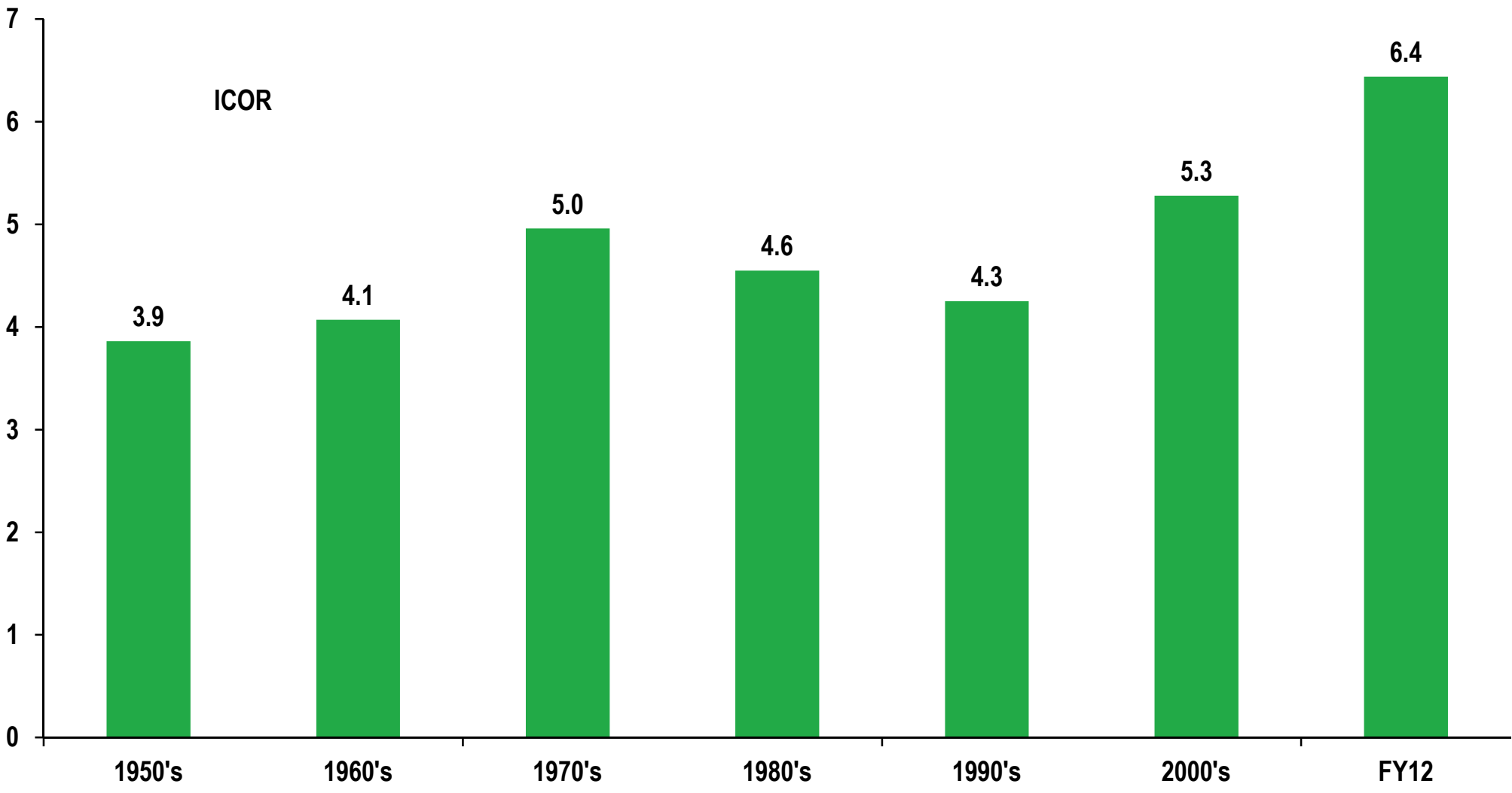
Dr. Samiran Chakraborty  
November 2013

# Investment has been a primary driver of India's growth story

Investment as % of GDP



# Productivity growth have helped but declining now



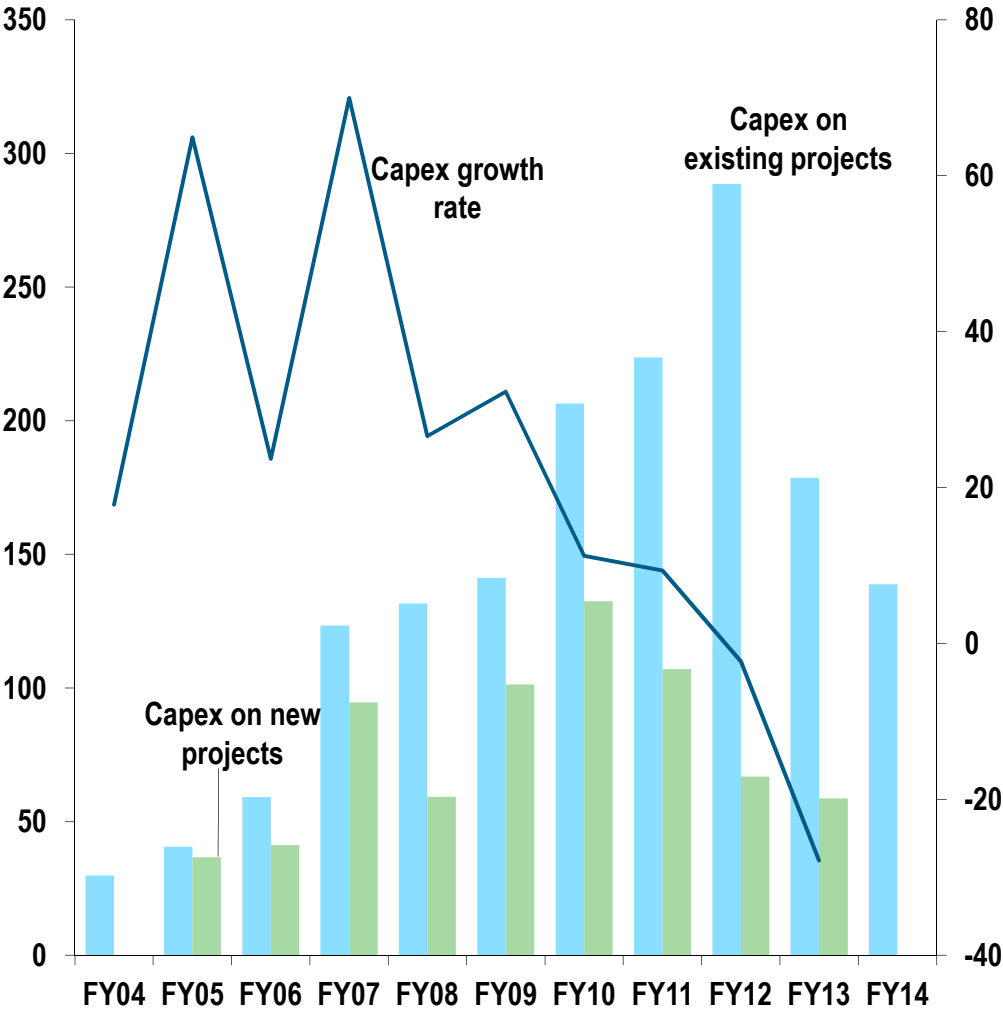
# Macro assumptions behind 8% growth in 12<sup>th</sup> FYP

- Average investment rate (GFCF) of over 34% (similar to the peak achieved in 2007-08)
- No major change in public investment (8.4% of GDP)
- Private corporate fixed investment to increase from 11.3% of GDP in FY12 to 15% in FY17
- Savings rate to average 33.6% almost same as 11<sup>th</sup> FYP
- Average current account deficit of 3.4% for 12<sup>th</sup> FYP is an area of concern
- Implicit assumption of ICOR around 4 – bringing ICOR down will be one of the biggest challenges of the 12<sup>th</sup> FYP

# Investment demand collapses

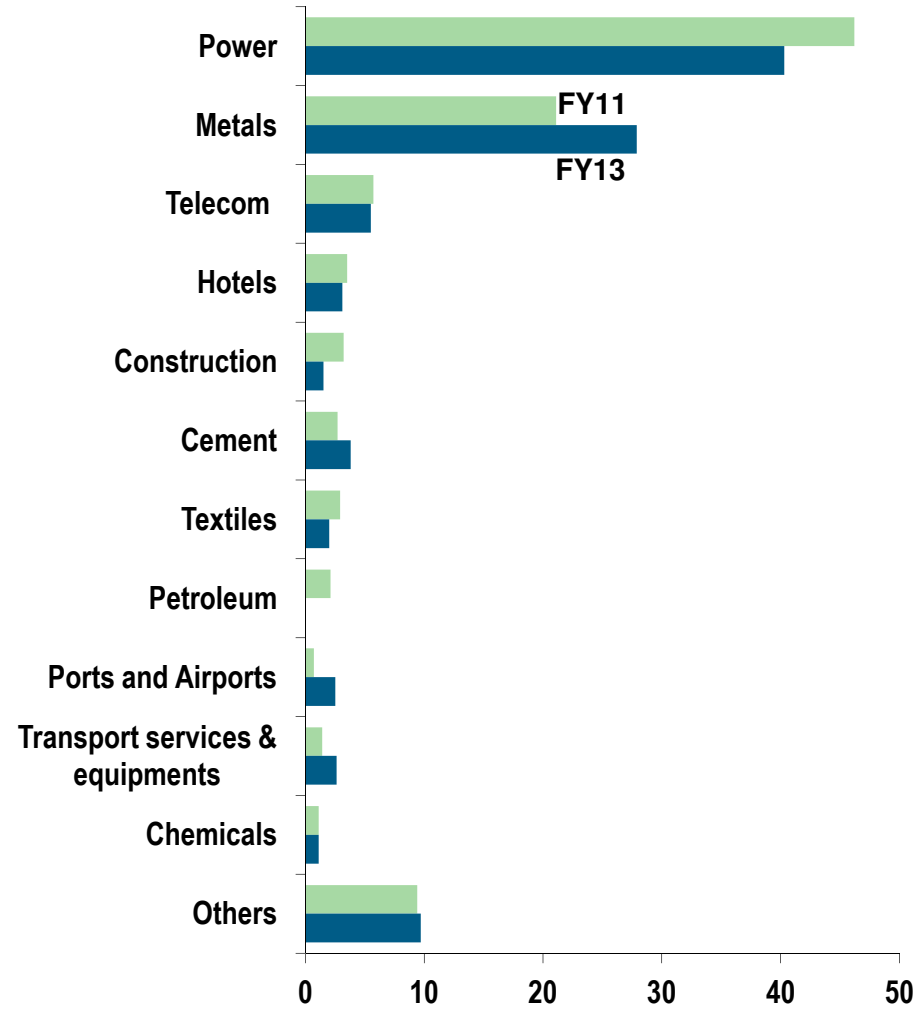
## Slowing capex on new projects is worrying

INR bn, %y/y



## Infrastructure dominates capex spending

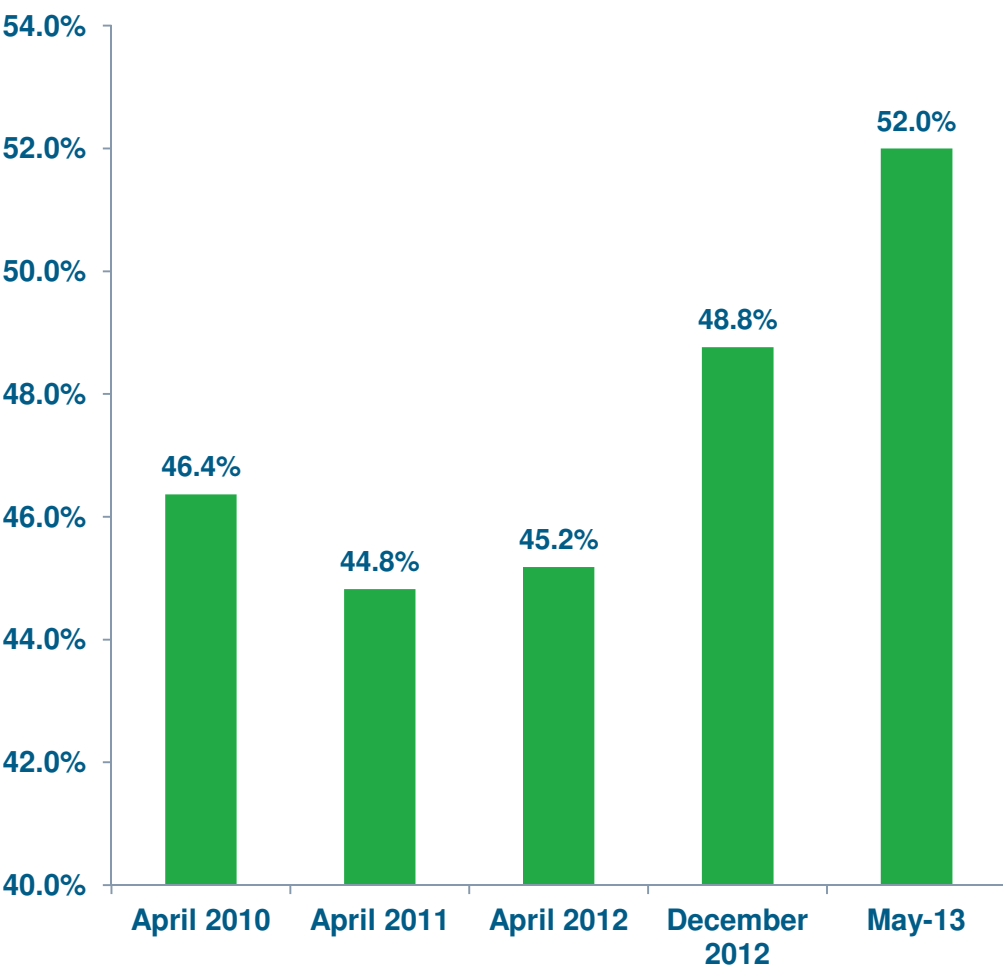
% share of corporate capex, FY11 & FY13



# The vanishing “animal spirits”

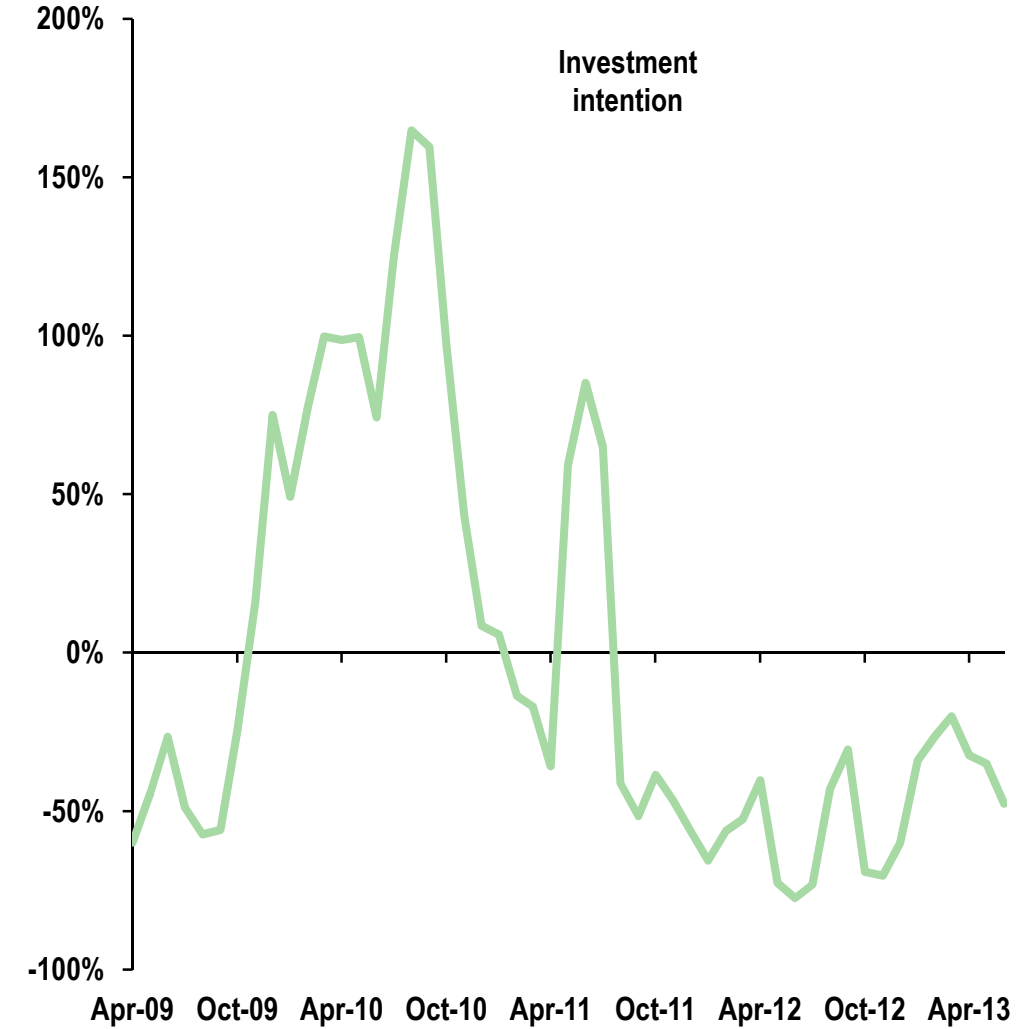
## Project delays continue

*% of total projects above INR150 cr delayed*



## Negative sentiment impacting investment intention

*% y/y*

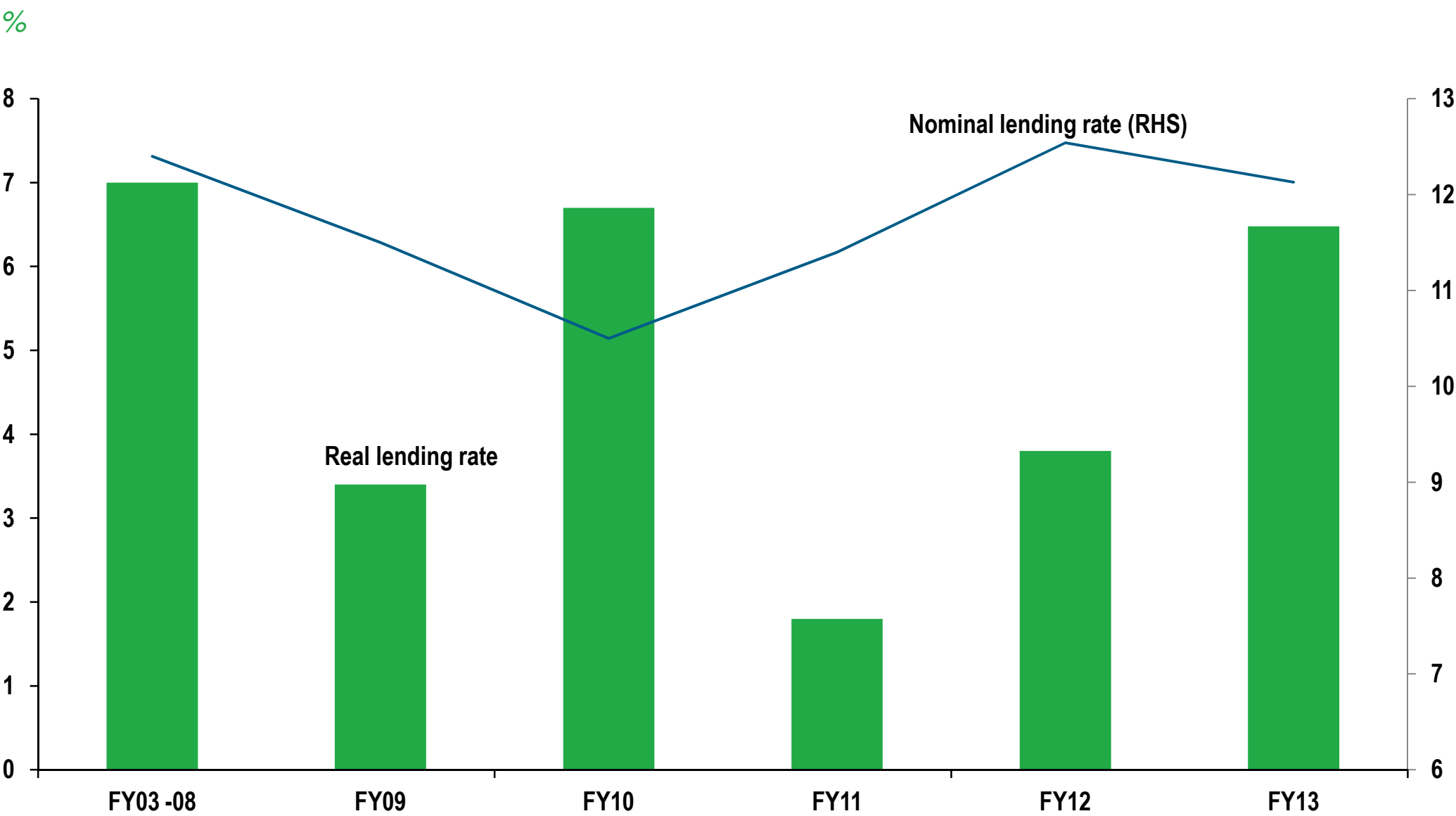


# Investment activity has suffered from

---

- High interest rates
- High leverage
- Stalled projects
- Low trust on institutions and dip in business confidence

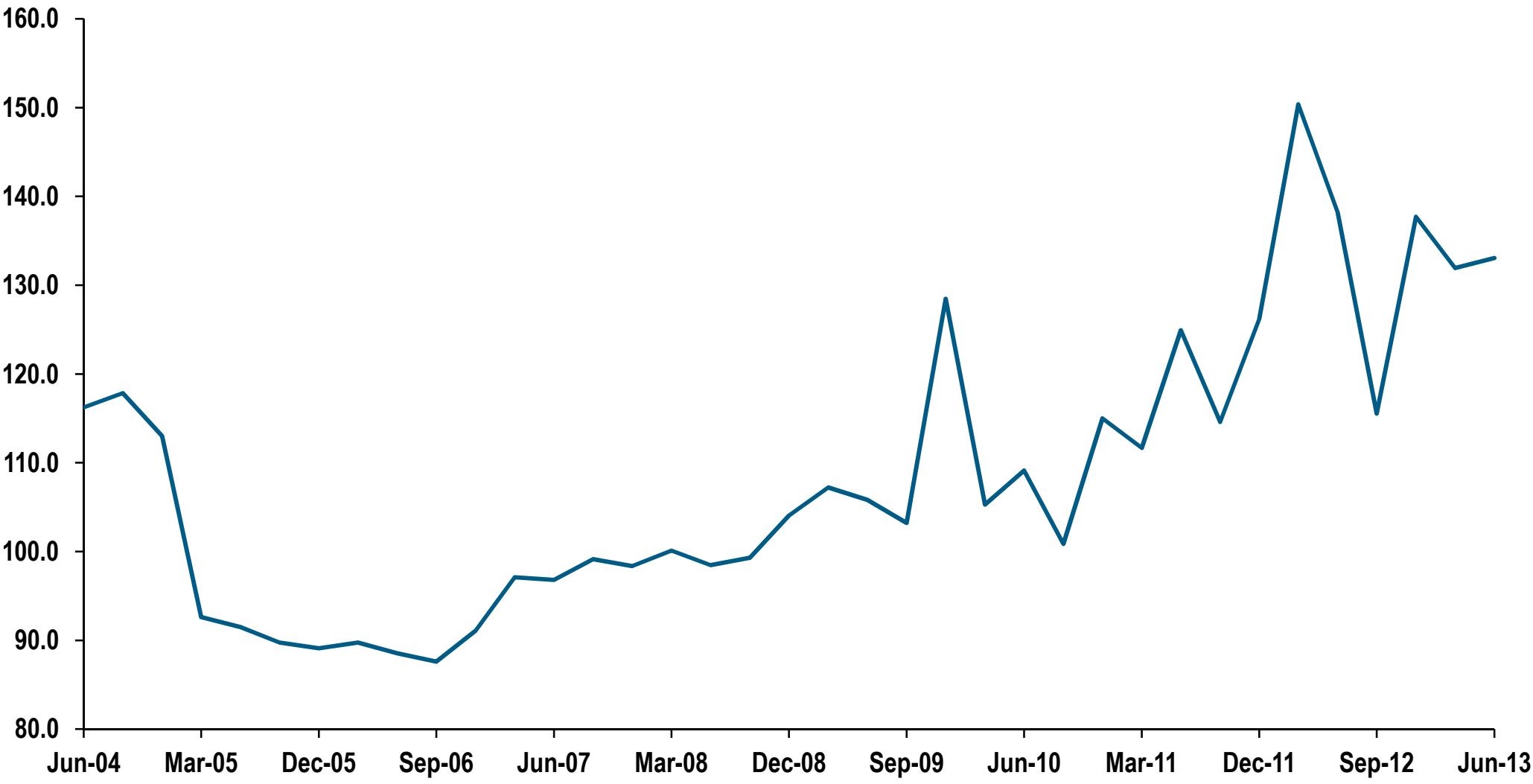
# High lending rates also affecting investment demand





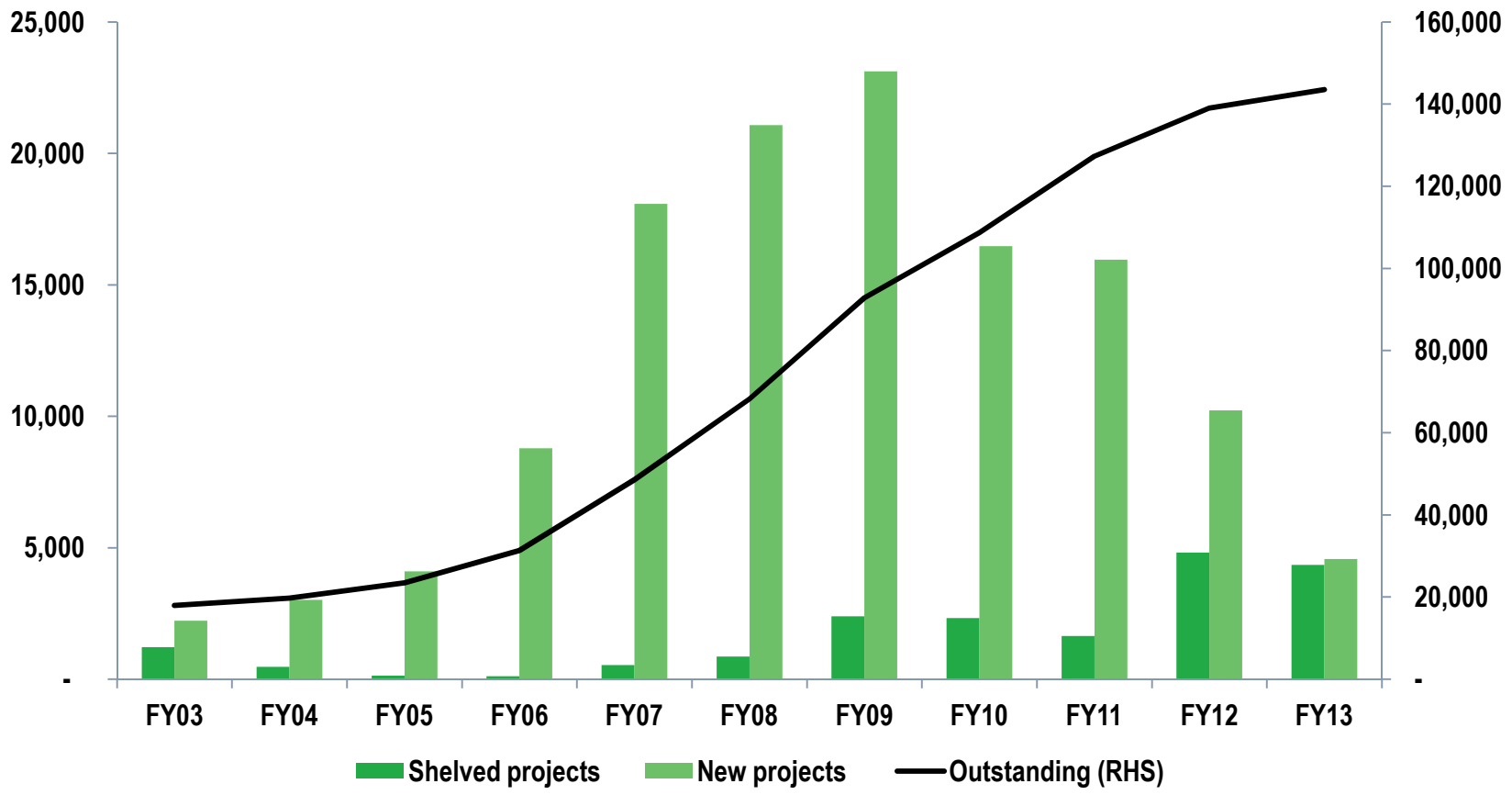
# Rising debt equity ratio constraining capex

Debt-to-equity ratio of CNX 500 firms

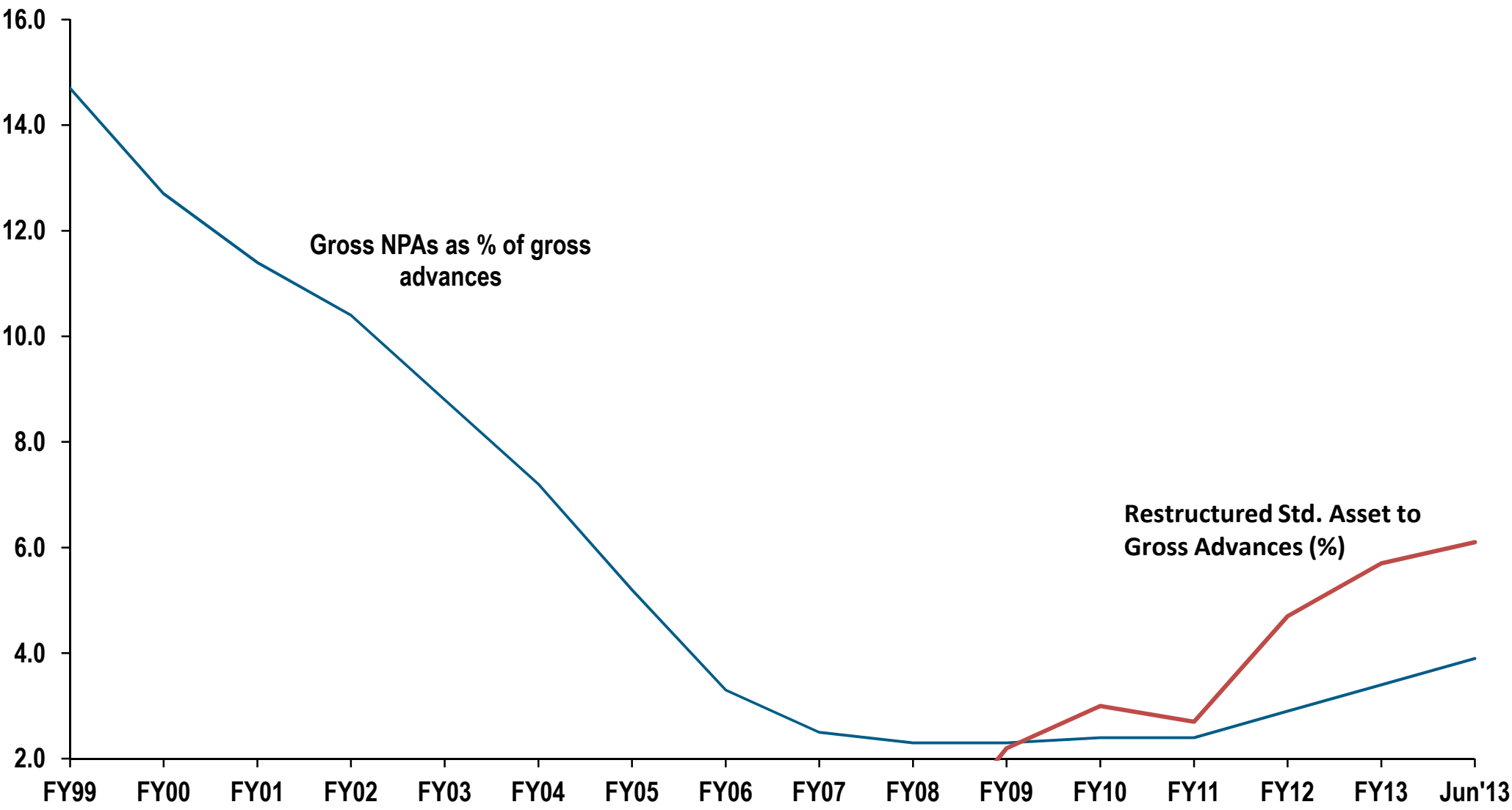


# Projects getting stalled

INR bn

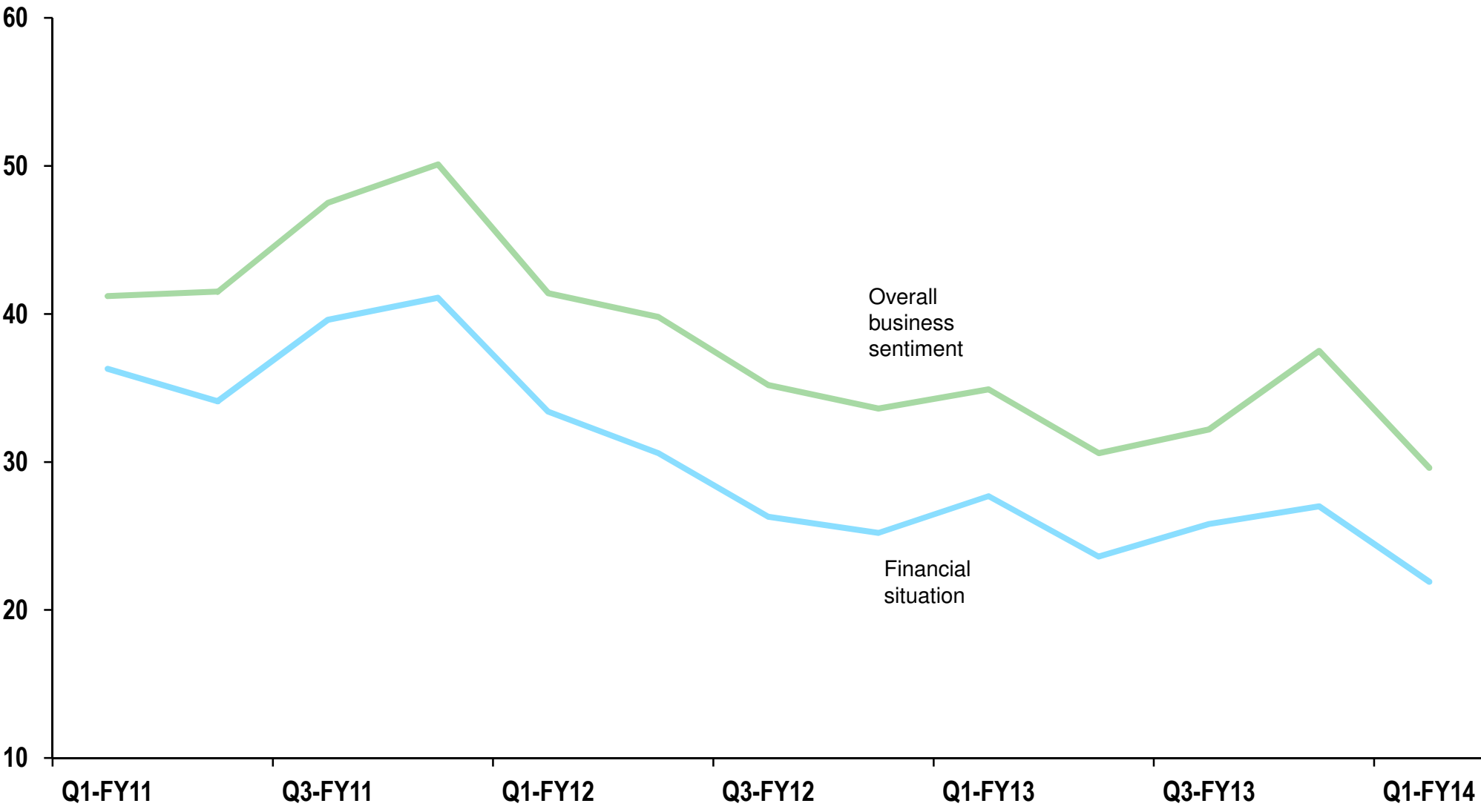


# Worsening asset quality of banks another concern



# Business confidence drops drastically

% of respondents



# What can be done to improve investment?

## High interest rates

- Containing inflation is top priority to provide a platform for sustainable growth
- Exchange rate stability

## High leverage

- Ability of companies to raise capital and sell non-core assets has to improve
- Banks' ability to restructure some of the NPAs will help them free up resources to lend again

## Stalled projects

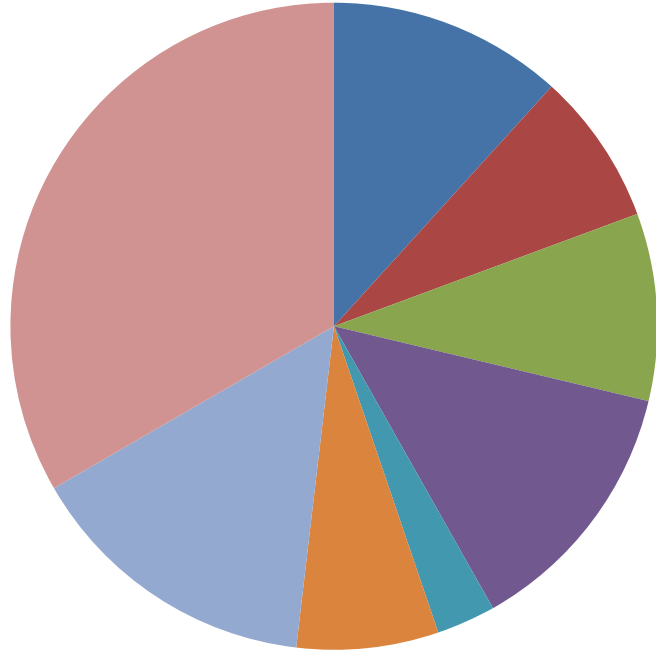
- CCI is taking some steps but more needs to be done

## Low trust on institutions and dip in business confidence

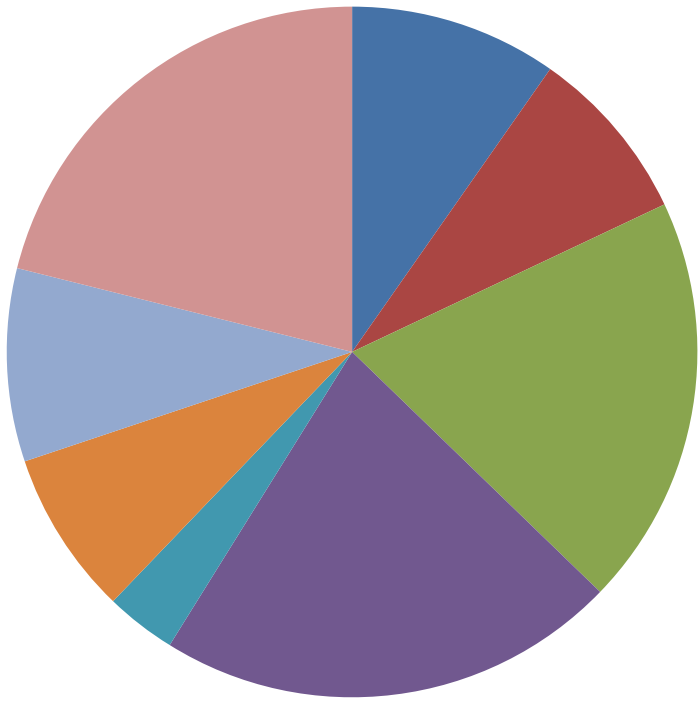
- Reforms – land, labour, natural resources allocation, institutions
- Change in government?

# Infrastructure financing plan

12th plan



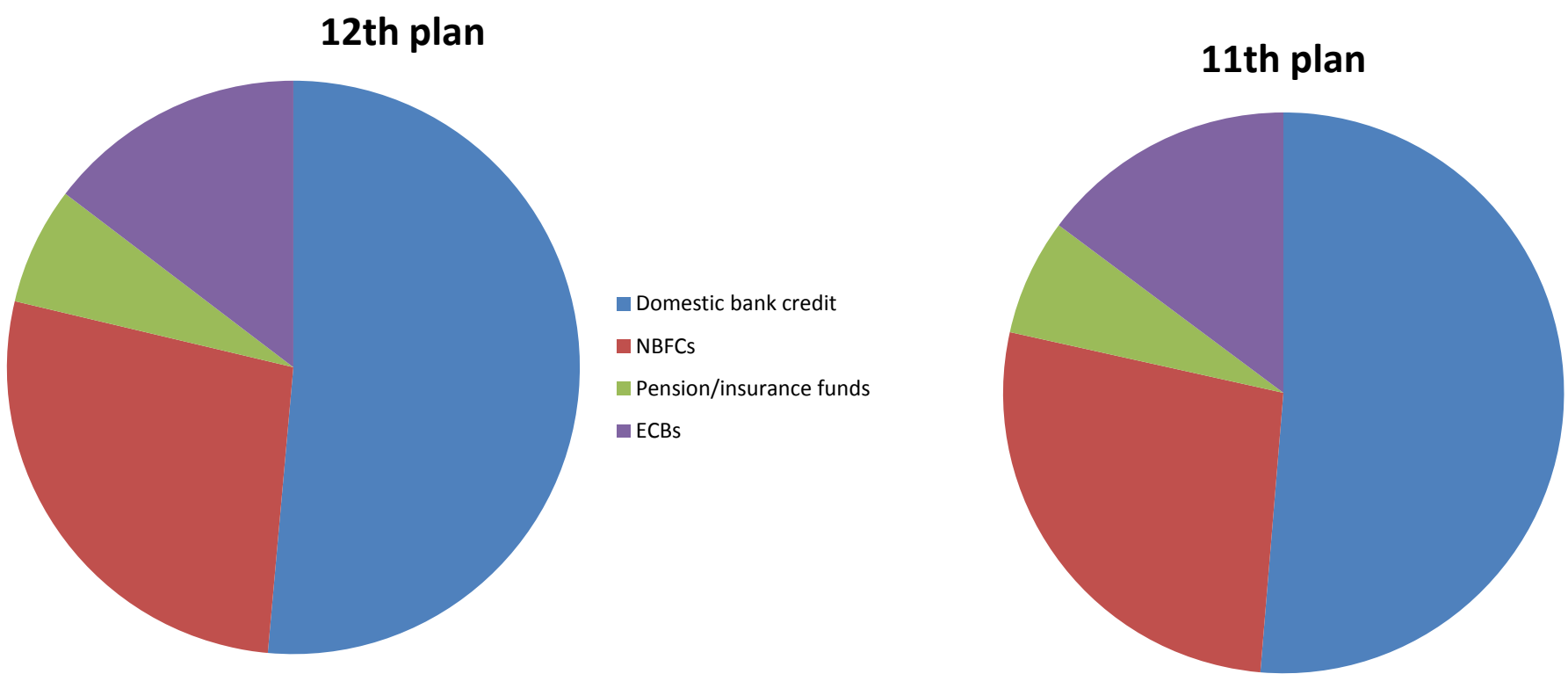
11th plan



- Central budget
- Central Internal generation
- Central Borrowings
- States Budget
- States Internal generation
- States Borrowings
- Private Internal accruals/equity
- Private Borrowings

**170% growth expected in infra financing, reaching close to 9% of GDP**  
**More dependence on private sector borrowing and equity infusion (48%), less dependence on state budget**

# Sources of debt financing



Unchanged proportions for 11<sup>th</sup> and 12<sup>th</sup> FYP, total debt requirement to go up by 174%  
Dependence on bank credit and foreign borrowing to continue

# Making domestic finance available

## Household financial savings – at a 20-year low

- Impact of savings in the form of gold and real estate – channelising unproductive savings
- CPI-linked savings certificate

## Better financial intermediation

- Financial inclusion to increase the size of the financial sector in relation to the economy
- Incentivising long term savings products

## Other policy options

- Making pension and insurance funds play a larger role in providing long term finance
- Better interest rate risk management products for providing long-term financing
- Development of the corporate bond market



# The requirement of foreign capital

**Upto USD 140bn of foreign debt capital might be needed only to fund the infrastructure plan. Including needs of other sectors the requirement could be as high as USD 250bn.**

- The total foreign borrowing need could go up to USD 400bn if we consider Indian companies need to borrow to finance their overseas acquisitions

**Equity capital through FDI would also be important for the USD 140bn need of the private sector**

## **Policy options**

- Infrastructure debt funds
- Easier participation of FIIs (the new FPI regime)
- ECB norms may be relooked at
- Development of the corporate bond market and more foreign participation there
- India's inclusion in the government bond index
- Ease of doing business

## Global Disclaimer (page 1 of 2)

**Analyst Certification Disclosure:** The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.

**Global Disclaimer:** Standard Chartered Bank and or its affiliates ("SCB") makes no representation or warranty of any kind, express, implied or statutory regarding this document or any information contained or referred to on the document. The information in this document is provided for information purposes only. It does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices, or represent that any such future movements will not exceed those shown in any illustration. The stated price of the securities mentioned herein, if any, is as of the date indicated and is not any representation that any transaction can be effected at this price. While all reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors of fact or for any opinion expressed herein. The contents of this document may not be suitable for all investors as it has not been prepared with regard to the specific investment objectives or financial situation of any particular person. Any investments discussed may not be suitable for all investors. Users of this document should seek professional advice regarding the appropriateness of investing in any securities, financial instruments or investment strategies referred to on this document and should understand that statements regarding future prospects may not be realised. Opinions, forecasts, assumptions, estimates, derived valuations, projections and price target(s), if any, contained in this document are as of the date indicated and are subject to change at any time without prior notice. Our recommendations are under constant review. The value and income of any of the securities or financial instruments mentioned in this document can fall as well as rise and an investor may get back less than invested. Future returns are not guaranteed, and a loss of original capital may be incurred. Foreign-currency denominated securities and financial instruments are subject to fluctuation in exchange rates that could have a positive or adverse effect on the value, price or income of such securities and financial instruments. Past performance is not indicative of comparable future results and no representation or warranty is made regarding future performance. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. Accordingly, information may be available to us which is not reflected in this material, and we may have acted upon or used the information prior to or immediately following its publication. SCB is not a legal or tax adviser, and is not purporting to provide legal or tax advice. Independent legal and/or tax advice should be sought for any queries relating to the legal or tax implications of any investment. SCB, and/or a connected company, may have a position in any of the securities, instruments or currencies mentioned in this document. SCB and/or any member of the SCB group of companies or its respective officers, directors, employee benefit programmes or employees, including persons involved in the preparation or issuance of this document may at any time, to the extent permitted by applicable law and/or regulation, be long or short any securities or financial instruments referred to in this document and on the website or have a material interest in any such securities or related investment, or may be the only market maker in relation to such investments, or provide, or have provided advice, investment banking or other services, to issuers of such investments. SCB has in place policies and procedures and physical information walls between its Research Department and differing public and private business functions to help ensure confidential information, including 'inside' information is not disclosed unless in line with its policies and procedures and the rules of its regulators. Data, opinions and other information appearing herein may have been obtained from public sources. SCB makes no representation or warranty as to the accuracy or completeness of such information obtained from public sources. You are advised to make your own independent judgment (with the advice of your professional advisers as necessary) with respect to any matter contained herein and not rely on this document as the basis for making any trading, hedging or investment decision. SCB accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental, consequential, punitive or exemplary damages) from use of this document, howsoever arising, and including any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any part thereof or any contents or associated services. This material is for the use of intended recipients only and, in any jurisdiction in which distribution to private/retail customers would require registration or licensing of the distributor which the distributor does not currently have, this document is intended solely for distribution to professional and institutional investors.

## Global Disclaimer (page 2 of 2)

**Country-Specific Disclosures** - If you are receiving this document in any of the countries listed below, please note the following:

**United Kingdom and European Economic Area:** SCB is authorised and regulated in the United Kingdom by the Financial Services Authority (FSA). This communication is not directed at Retail Clients in the European Economic Area as defined by Directive 2004/39/EC. Nothing in this document constitutes a personal recommendation or investment advice as defined by Directive 2004/39/EC. **Australia:** The Australian Financial Services License for SCB is License No: 246833 with the following Australian Registered Business Number (ARBN: 097571778). Australian investors should note that this document was prepared for wholesale investors only within the meaning of section 761G of the Australian Corporations Act 2011 and the Corporations Regulations. This document is not directed at persons who are “retail clients” as defined in the Australian Corporations Act 2011. **Brazil:** SCB disclosures pursuant to the Securities Exchange Commission of Brazil (“CVM”) Instruction 483/10: This research has not been produced in Brazil. The report has been prepared by the research analyst(s) in an autonomous and independent way, including in relation to SCB. THE SECURITIES MENTIONED IN THIS REPORT HAVE NOT BEEN AND WILL NOT BE REGISTERED PURSUANT TO THE REQUIREMENTS OF THE SECURITIES AND EXCHANGE COMMISSION OF BRAZIL AND MAY NOT BE OFFERED OR SOLD IN BRAZIL EXCEPT PURSUANT TO AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS AND IN COMPLIANCE WITH THE SECURITIES LAWS OF BRAZIL. **China:** This document is being distributed in China by, and is attributable to, Standard Chartered Bank (China) Limited which is mainly regulated by China Banking Regulatory Commission (CBRC), State Administration of Foreign Exchange (SAFE), and People’s Bank of China (PBoC). **Hong Kong:** This document, except for any portion advising on or facilitating any decision on futures contracts trading, is being distributed in Hong Kong by, and is attributable to, Standard Chartered Bank (Hong Kong) Limited which is regulated by the Hong Kong Monetary Authority. **Japan:** This document is being distributed to Specified Investors, as defined by the Financial Instruments and Exchange Law of Japan (FIEL), for information only and not for the purpose of soliciting any Financial Instruments Transactions as defined by the FIEL or any Specified Deposits, etc. as defined by the Banking Law of Japan. **Singapore:** This document is being distributed in Singapore by SCB Singapore branch, only to accredited investors, expert investors or institutional investors, as defined in the Securities and Futures Act, Chapter 289 of Singapore. Recipients in Singapore should contact SCB Singapore branch in relation to any matters arising from, or in connection with, this document. **South Africa:** SCB is licensed as a Financial Services Provider in terms of Section 8 of the Financial Advisory and Intermediary Services Act 37 of 2002. SCB is a Registered Credit Provider in terms of the National Credit Act 34 of 2005 under registration number NCRCP4. **UAE (DIFC):** SCB is regulated in the Dubai International Financial Centre by the Dubai Financial Services Authority. This document is intended for use only by Professional Clients and should not be relied upon by or be distributed to Retail Clients. **United States:** Except for any documents relating to foreign exchange, FX or global FX, Rates or Commodities, distribution of this document in the United States or to US persons is intended to be solely to major institutional investors as defined in Rule 15a-6(a)(2) under the US Securities Act of 1934. All US persons that receive this document by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities. Any US recipient of this document wanting additional information or to effect any transaction in any security or financial instrument mentioned herein, must do so by contacting a registered representative of Standard Chartered Securities (North America) Inc., 1095 Avenue of the Americas, New York, N.Y. 10036, US, tel + 1 212 667 0700. WE DO NOT OFFER OR SELL SECURITIES TO U.S. PERSONS UNLESS EITHER (A) THOSE SECURITIES ARE REGISTERED FOR SALE WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION AND WITH ALL APPROPRIATE U.S. STATE AUTHORITIES; OR (B) THE SECURITIES OR THE SPECIFIC TRANSACTION QUALIFY FOR AN EXEMPTION UNDER THE U.S. FEDERAL AND STATE SECURITIES LAWS NOR DO WE OFFER OR SELL SECURITIES TO U.S. PERSONS UNLESS (i) WE, OUR AFFILIATED COMPANY AND THE APPROPRIATE PERSONNEL ARE PROPERLY REGISTERED OR LICENSED TO CONDUCT BUSINESS; OR (ii) WE, OUR AFFILIATED COMPANY AND THE APPROPRIATE PERSONNEL QUALIFY FOR EXEMPTIONS UNDER APPLICABLE U.S. FEDERAL AND STATE LAWS.

© Copyright 2013 Standard Chartered Bank and its affiliates. All rights reserved. All copyrights subsisting and arising out of all materials, text, articles and information contained herein is the property of Standard Chartered Bank and/or its affiliates, and may not be reproduced, redistributed, amended, modified, adapted, transmitted in any way without the prior written permission of Standard Chartered Bank.