



*Preventing a Slowdown  
Investments & Industry Outlook*

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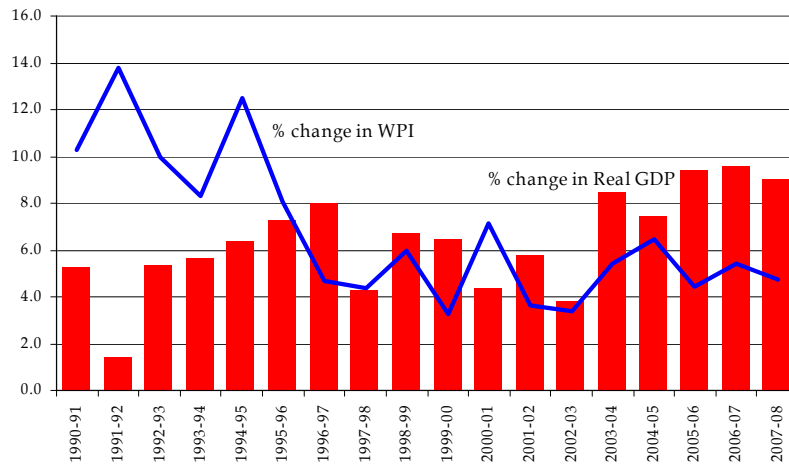
Centre for Monitoring Indian Economy Pvt Ltd

19 September 2008

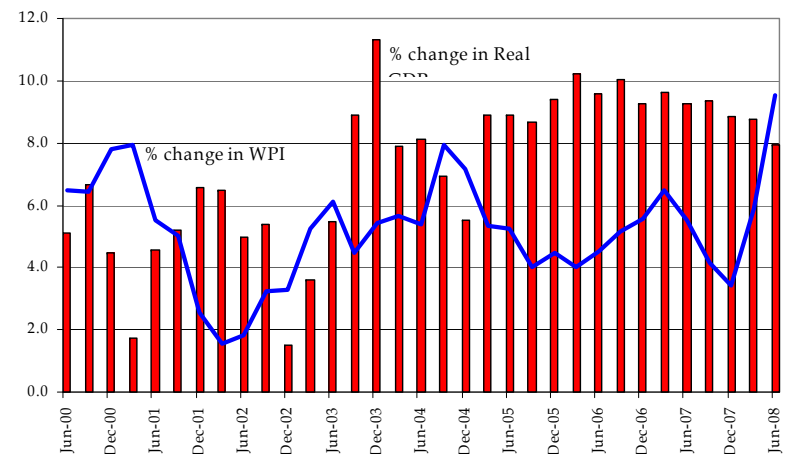
New Delhi

# Healthy Growth in Real GDP since 2003-04

Annual changes in GDP & WPI since 1990-91



Quarterly changes in GDP & WPI since June 2000

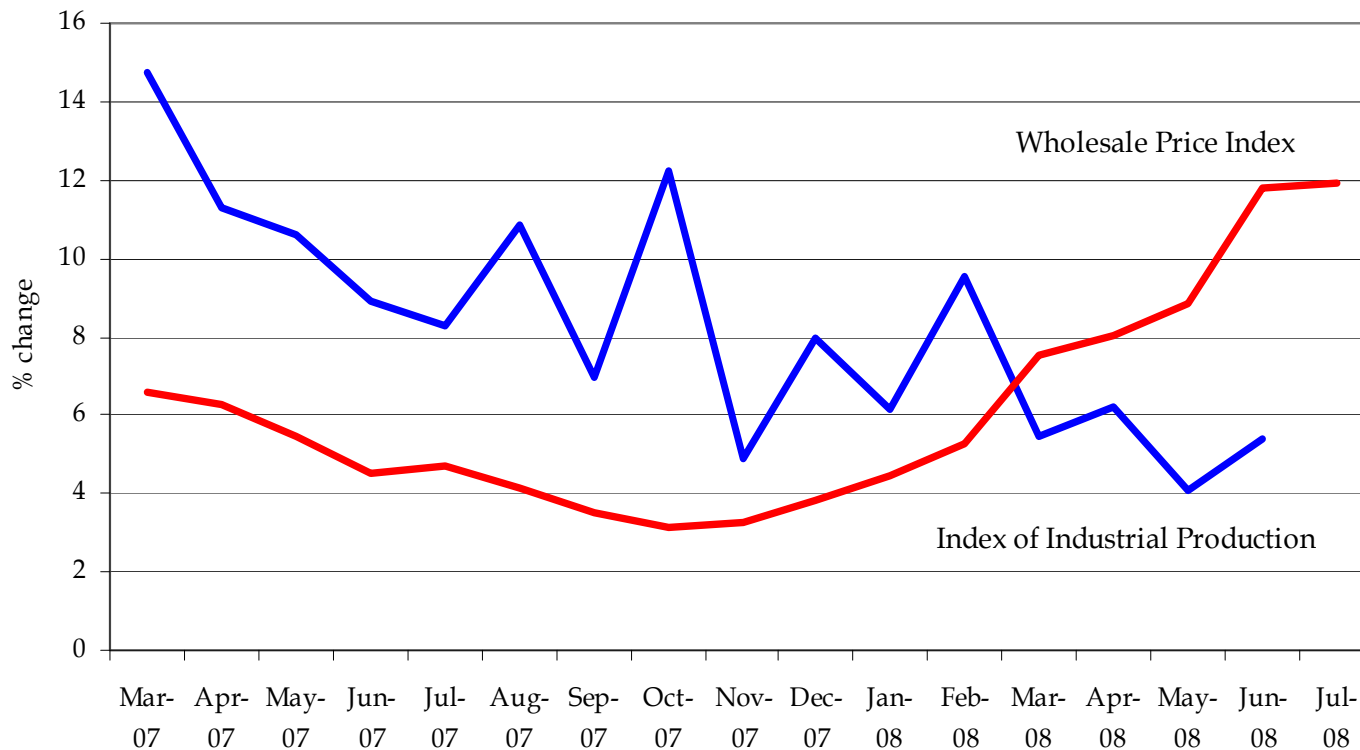


First Quarter of 2008-09 indicates trouble:  
 growth slows down  
 & inflation spikes sharply

But, is this really a slowdown or is it a data problem?



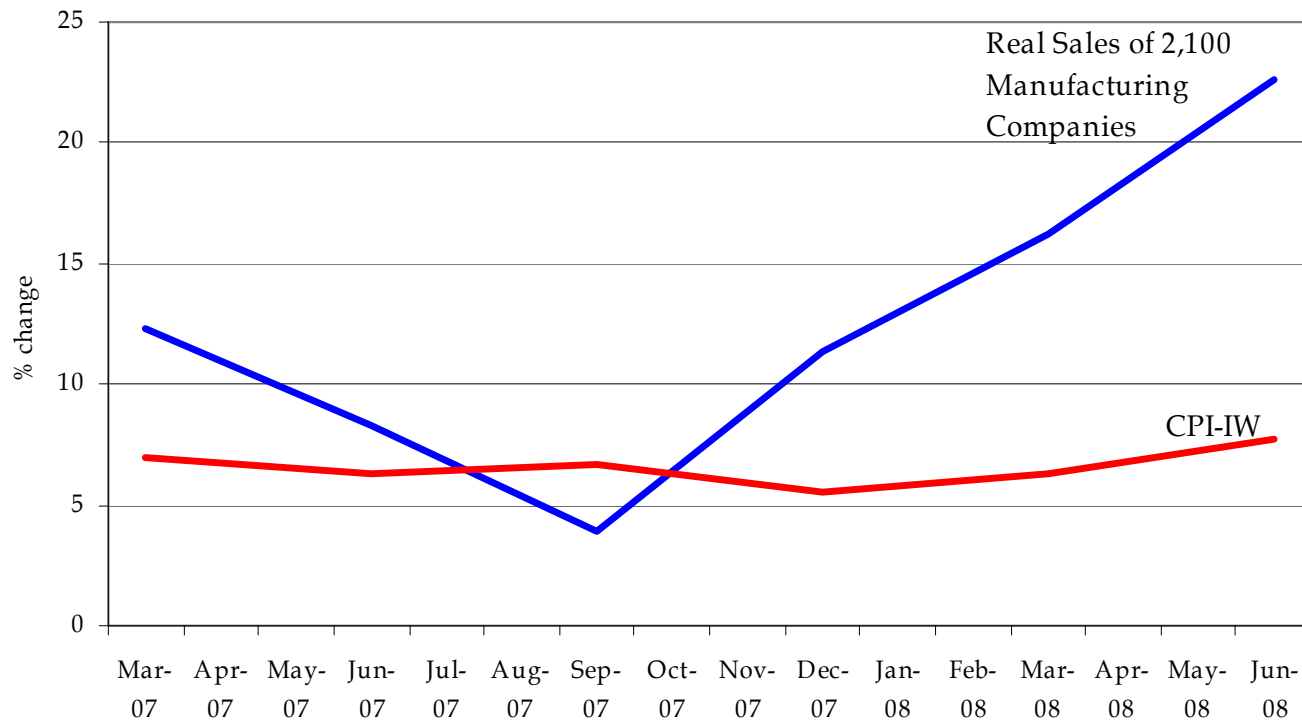
Falling growth in output & rising inflation may suggest that the economy is headed towards **Stagflation ...**



Alternate data sources do not indicate such a trend ...



# Alternate data sources do not indicate stagnation, slowdown or stagflation



The economy is doing pretty well, we need to measure it correctly





# *Investments & Industry Outlook*

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# Sources of our Optimism on Industry

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Sound finances of industry till March 2008

CapEx, Gearing, Liquidity

Excellent growth in first quarter

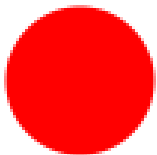
Sales (not Profits), Margins

CapEx growth continues

New investment proposals, Completions

New capacities expected in 2008-09

Refineries, metals, cement, automobiles, power



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## Manufacturing companies ~ March 2008

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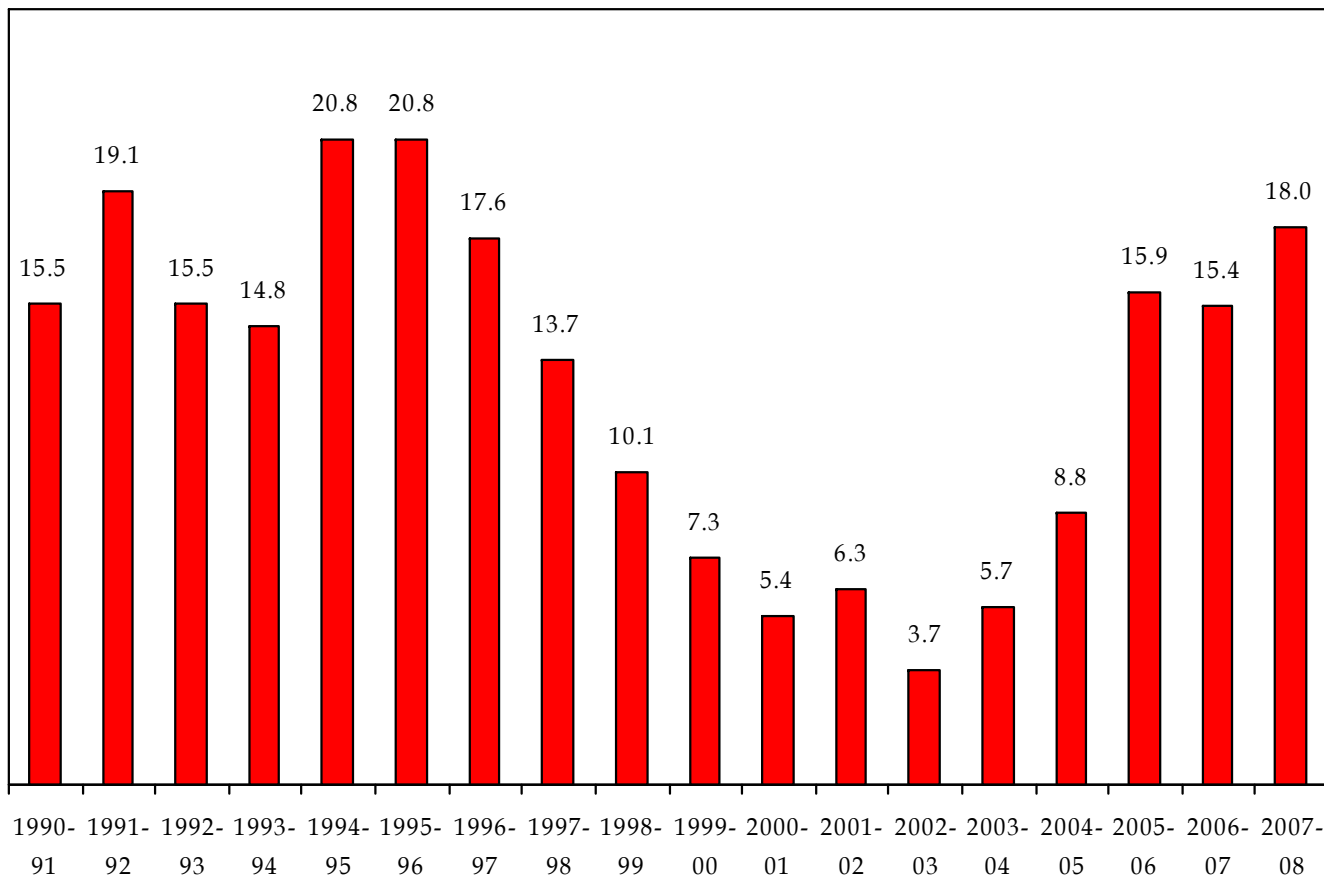
First, we look for signs of stress in manufacturing companies as of March 2008.

- Investments
- Gearing
- Payments problems
- Working capital cycle

We study the audited annual accounts for over 1,700 manufacturing companies for the year ended March 2008.

# Resurgence of Cap-ex confirmed

## Growth in Gross Fixed Assets: Mfg. Cos.



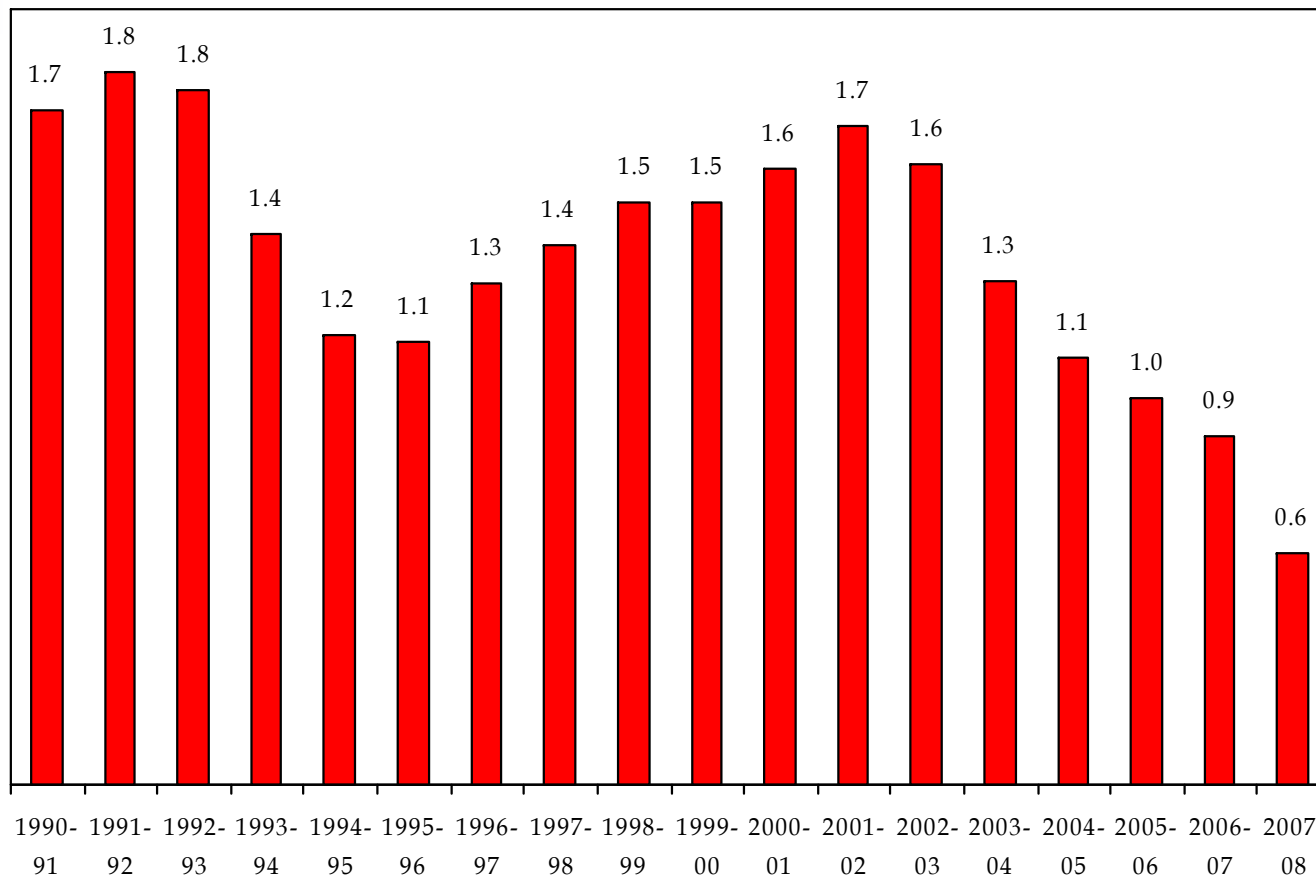
2007-08 data is provisional based on audited accounts of 1,700 companies in Prowess





# Well positioned to borrow more

## Debt:Equity Ratio: Mfg. Cos.

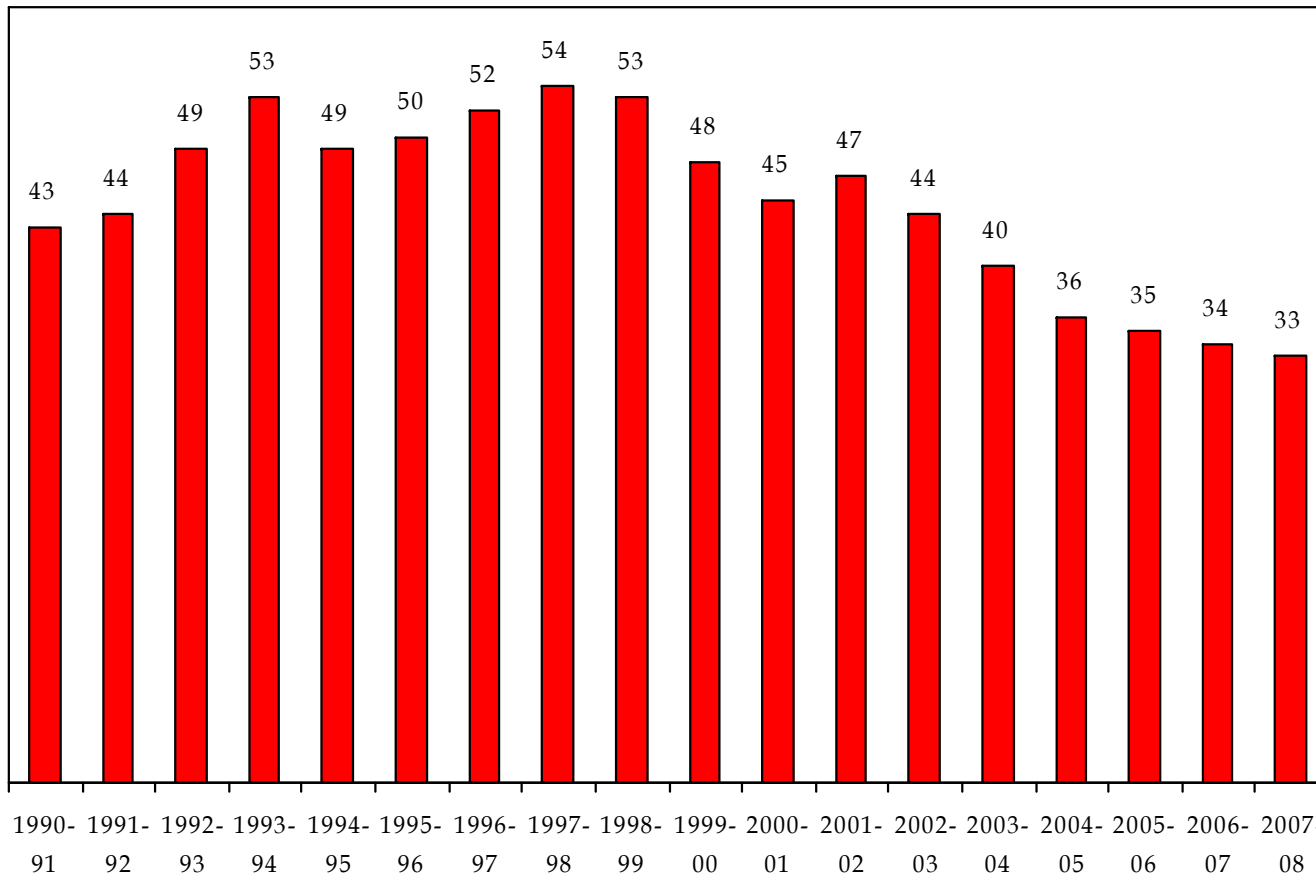


2007-08 data is provisional based on audited accounts of 1,700 companies in Prowess



# No Stress on Payments

## Debtors Days: Mfg. Cos.

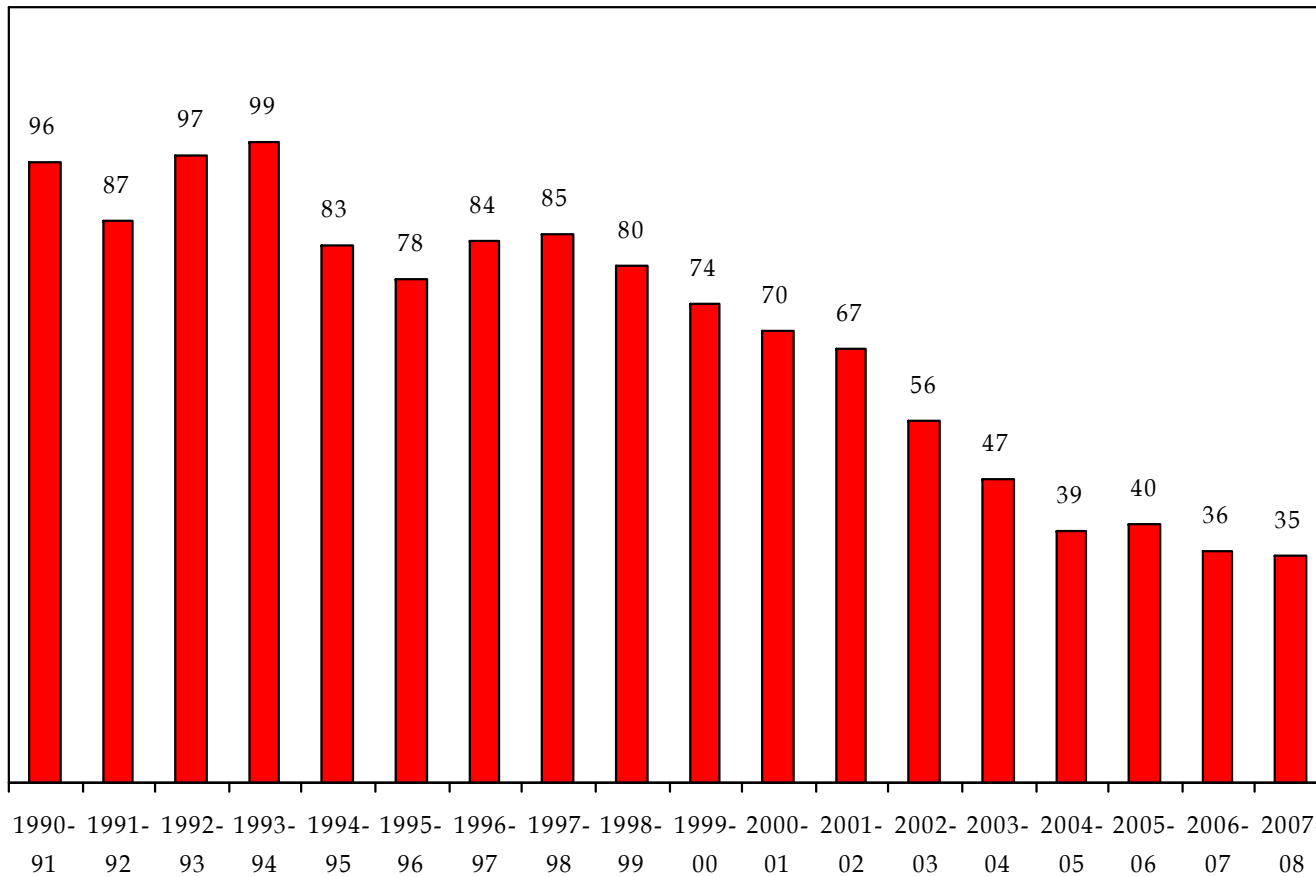


2007-08 data is provisional based on audited accounts of 1,700 companies in Prowess



# Efficiencies Intact

## Net Working Capital Cycle (Days): Mfg. Cos.



2007-08 data is provisional based on audited accounts of 1,700 companies in Prowess





## Manufacturing companies ~ March 2008

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We find **no signs of stress** in manufacturing companies **as of March 2008**.

- Companies continue to expand capacities
- They have no funding problems
- They have no payments problems
- They have no operational problems.

We now study the quarterly accounts of over 2,100 non-finance companies for the **quarter ended June 2008**.



# Sales accelerates, cost rise hurts

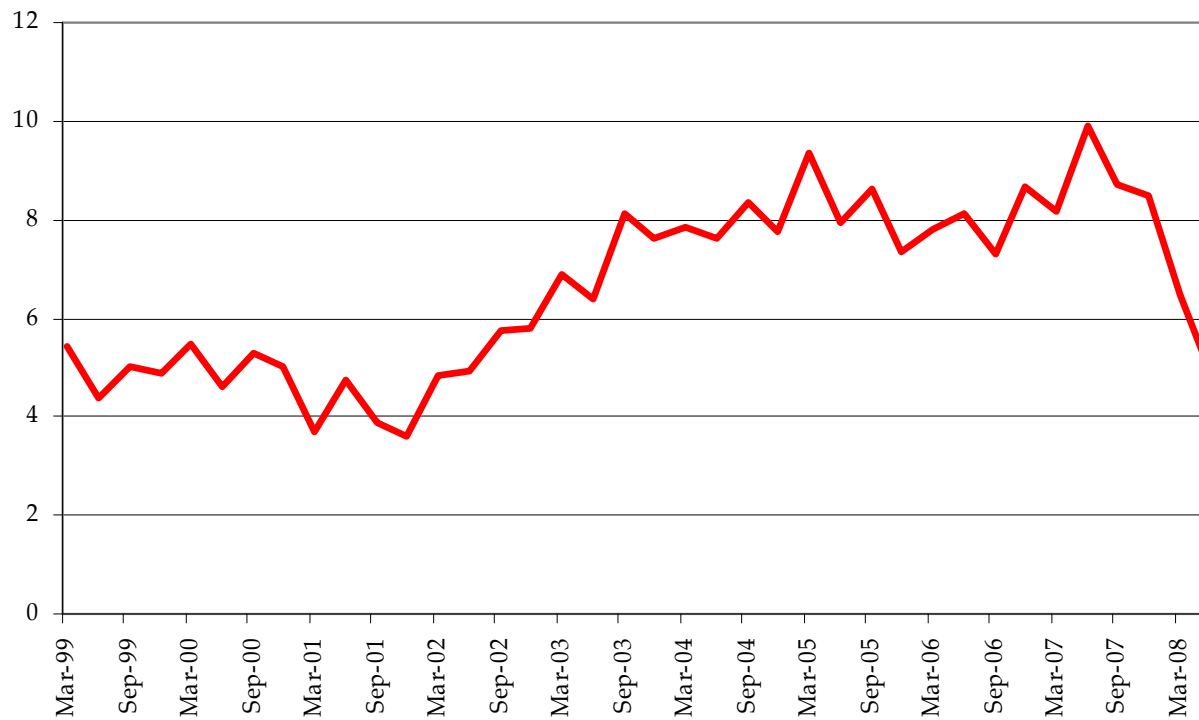
## Performance in June 2008: Mfg. Cos.

|                        |        |        | (nominal % change over year-ago) |        |        |        |
|------------------------|--------|--------|----------------------------------|--------|--------|--------|
|                        | Mar-07 | Jun-07 | Sep-07                           | Dec-07 | Mar-08 | Jun-08 |
| Income                 | 20.3   | 19.7   | 15.7                             | 19.3   | 23.9   | 30.8   |
| Net Sales              | 20.2   | 18.4   | 14.8                             | 18.1   | 24.5   | 32.5   |
| Total Expenses         | 20.0   | 17.3   | 12.9                             | 18.5   | 27.6   | 40.4   |
| Raw materials          | 18.3   | 13.4   | 6.1                              | 13.7   | 30.7   | 47.1   |
| Wages & salaries       | 32.9   | 21.2   | 18.6                             | 20.1   | 15.1   | 24.9   |
| Power & fuel           | 4.0    | 9.9    | 8.1                              | 18.2   | 38.3   | 39.0   |
| Selling & mktg.        | 38.4   | 46.9   | 29.5                             | 27.4   | 0.2    | 8.7    |
| Other expenses         | 7.6    | 10.5   | 16.5                             | 21.0   | 28.7   | 42.4   |
| Depreciation           | 16.6   | 13.8   | 12.7                             | 11.3   | 16.9   | 19.6   |
| Interest expenses      | 38.2   | 41.4   | 42.9                             | 42.8   | 40.1   | 31.4   |
| Tax provisions         | 43.4   | 38.6   | 29.5                             | 31.1   | 3.4    | 7.5    |
| PBDIT                  | 30.3   | 35.6   | 34.0                             | 26.5   | 14.8   | 3.0    |
| PAT                    | 25.4   | 39.8   | 35.5                             | 15.7   | -3.9   | -37.8  |
| PBDIT/Total income (%) | 24.7   | 26.7   | 25.8                             | 25.7   | 23.2   | 21.3   |
| PAT/Total income (%)   | 8.2    | 9.9    | 8.7                              | 8.5    | 6.5    | 4.8    |



# Net profit margin (%)

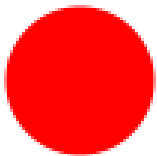
Fall in June 2008 reflects the losses of refineries



# Profit growth & margins intact

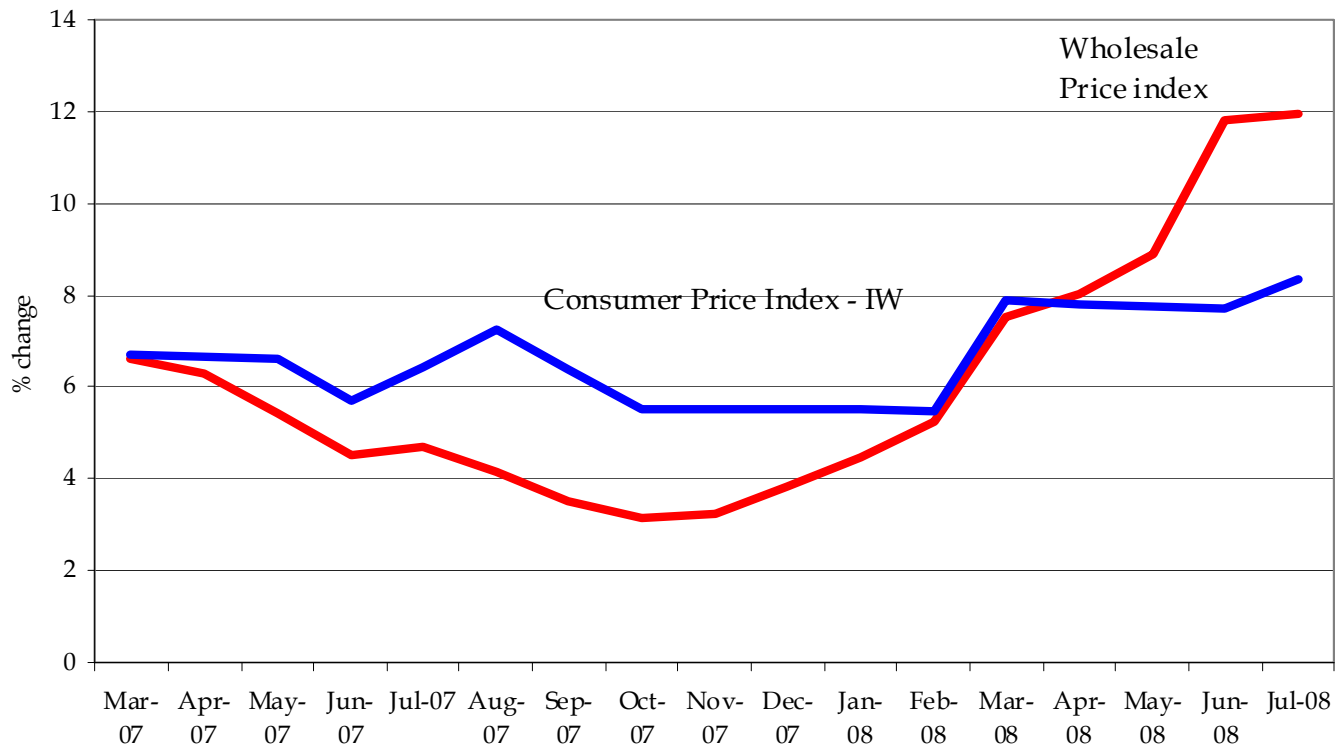
## Manufacturing companies excluding refineries

|                        | (nominal % change over year-ago) |        |        |        |        |        |
|------------------------|----------------------------------|--------|--------|--------|--------|--------|
|                        | Mar-07                           | Jun-07 | Sep-07 | Dec-07 | Mar-08 | Jun-08 |
| Income                 | 26.8                             | 19.9   | 15.4   | 16.0   | 15.7   | 23.5   |
| Net Sales              | 27.1                             | 18.3   | 14.9   | 15.6   | 15.5   | 24.6   |
| Total Expenses         | 26.9                             | 19.0   | 15.2   | 16.2   | 18.1   | 25.0   |
| Raw materials          | 29.2                             | 21.5   | 15.8   | 15.9   | 16.6   | 25.0   |
| Wages & salaries       | 29.8                             | 18.5   | 21.5   | 22.9   | 28.9   | 23.4   |
| Power & fuel           | 4.1                              | 10.3   | 7.7    | 13.9   | 32.3   | 28.4   |
| Selling & mktg.        | 33.1                             | 29.6   | 12.4   | 17.9   | 11.6   | 10.5   |
| Other expenses         | 20.9                             | 11.8   | 12.2   | 15.0   | 20.5   | 32.4   |
| Depreciation           | 21.6                             | 15.2   | 23.1   | 34.2   | 30.2   | 31.4   |
| Interest expenses      | 18.9                             | 15.3   | 15.1   | 17.8   | 14.5   | 15.6   |
| Tax provisions         | 45.8                             | 28.5   | 16.0   | 9.6    | 7.7    | 4.7    |
| PBDIT                  | 30.6                             | 22.4   | 16.9   | 14.4   | 13.8   | 11.8   |
| PAT                    | 31.2                             | 24.6   | 16.4   | 10.7   | 12.6   | 8.7    |
| PBDIT/Total income (%) | 17.4                             | 18.5   | 18.5   | 17.9   | 17.2   | 16.7   |
| PAT/Total income (%)   | 8.5                              | 9.0    | 9.2    | 8.7    | 8.5    | 8.1    |



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# Inflation is hurting producers not, as much, the consumer







## Manufacturing companies ~ June 2008

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We find **no signs of stress** in manufacturing companies as of **June 2008**.

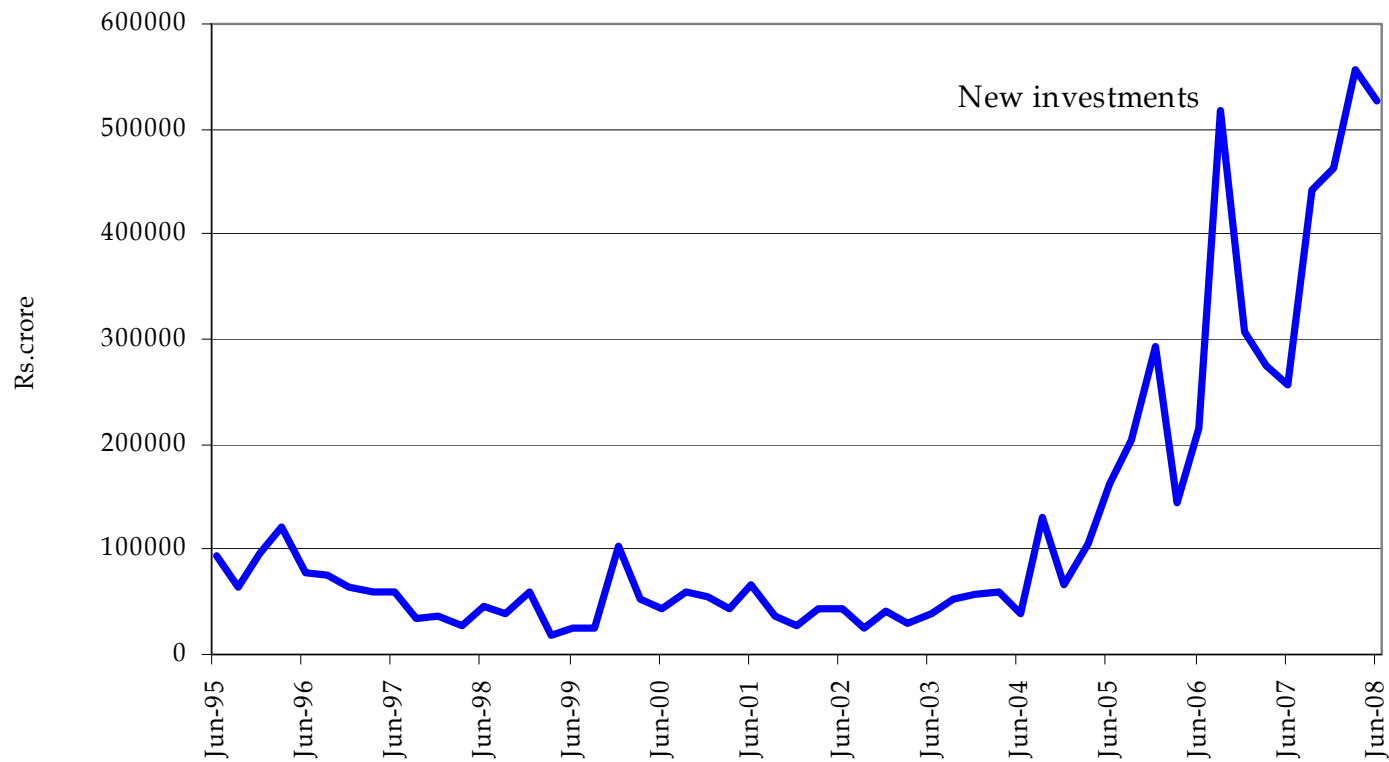
- Companies continue to grow top line reflecting good demand
- Steep increase in raw material, wages, energy & interest costs absorbed
- Profit margins under pressure but better than they were till five years ago.

We now study the recent trends, till **August 2008** of investment announcements.



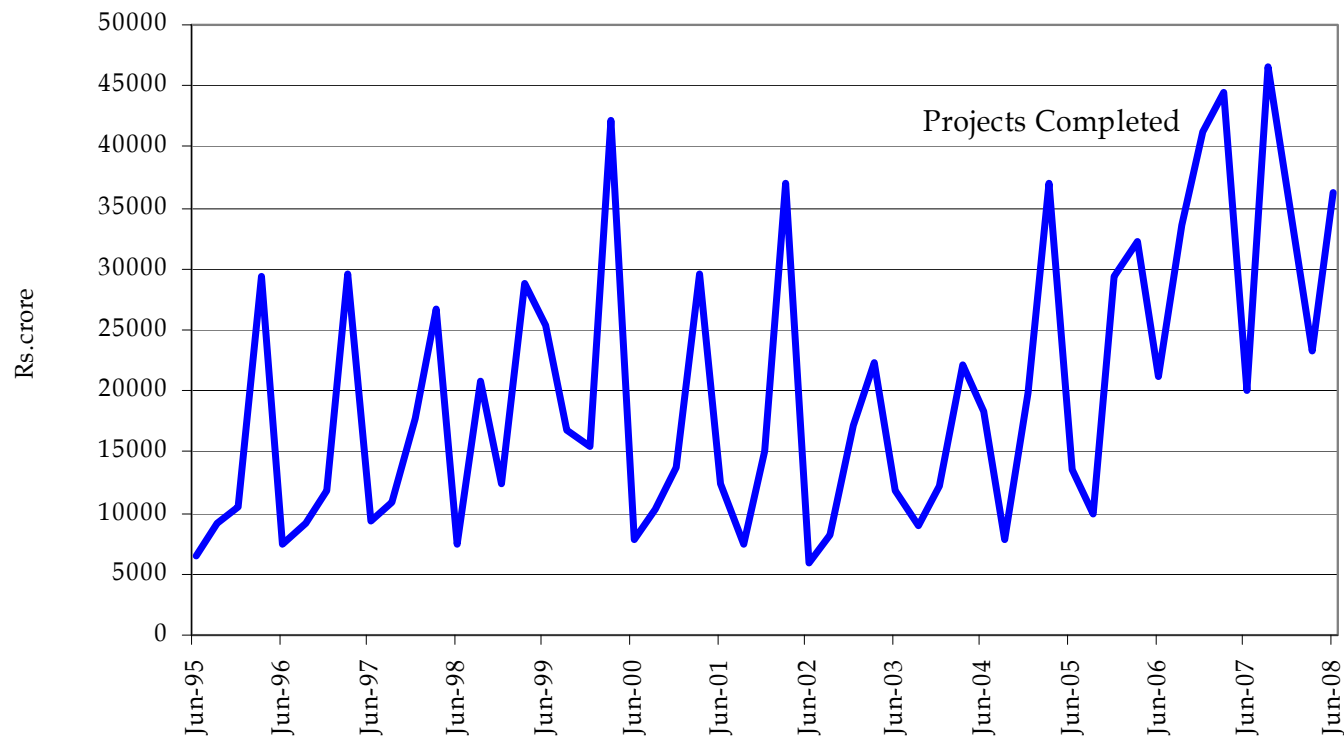
# Investments Boom Intact

New investments captured in CMIE's *CapEx*



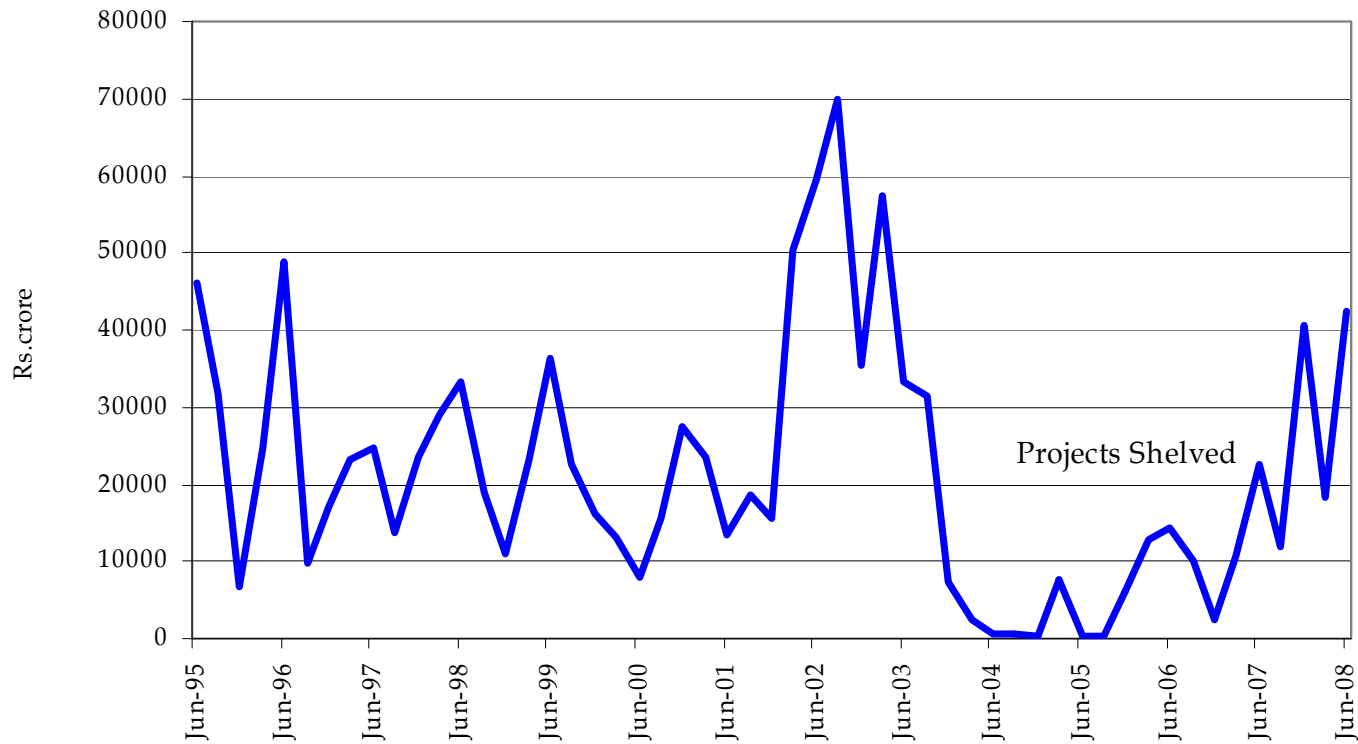
# Completions Inch-up

Value of projects completed as seen in *CapEx*

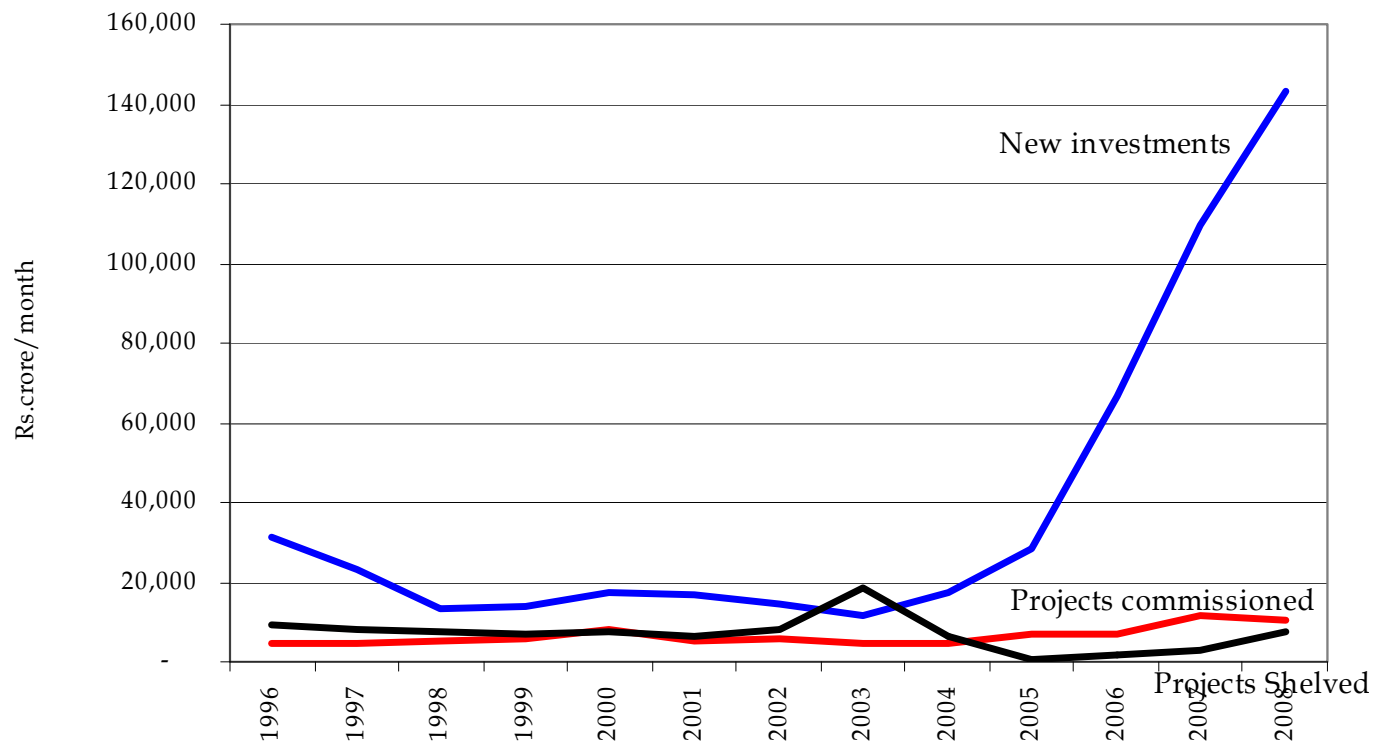


# Attrition also rises

Value of projects shelved as seen in *CapEx*



# What is in the pipeline is extraordinarily high





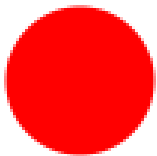
## Investments boom continues...

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New investment announcements  
continued into July & August:

July 2008: Rs.2.18 lakh crore

August 2008: Rs.1.32 lakh crore



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# Major industries to see capacity expansion in 2008-09

| Industry            | Units    | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|---------------------|----------|---------|---------|---------|---------|---------|
| Refineries          | Mln tns  | 0.00    | 5.10    | 16.50   | 0.00    | 30.23   |
| Cement              | Mln tns  | 8.00    | 6.40    | 7.60    | 30.00   | 22.00   |
| Steel               | Mln tns  | 4.10    | 3.20    | 5.30    | 2.00    | 4.80    |
| Aluminium           | Mln tns  | 0.09    | 0.20    | 0.05    | 0.00    | 0.04    |
| Paper               | Mln tns  | 0.26    | 0.00    | 0.24    | 0.01    | 0.36    |
| Tyres               | Millions | 6.59    | 3.17    | 6.56    | 6.85    | 4.30    |
| Commercial vehicles | Lakh     | 1.47    | 0.60    | 1.77    | 1.00    | 2.50    |
| Passenger cars      | Lakh     | 1.55    | 0.00    | 5.62    | 3.58    | 7.42    |
| Two-three wheelers  | Lakh     | 8.09    | 12.20   | 13.02   | 16.00   | 11.68   |
| Electricity         | MW       | 3465    | 3465    | 5942    | 6984    | 8617    |

# Healthy order-book position of capital goods companies

|                                      | Mar-04        | Mar-05        | Mar-06         | Mar-07         | Mar-08         |
|--------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Bharat Heavy Electricals             | 23,650        | 32,000        | 37,600         | 55,000         | 85,200         |
| Larsen & Toubro                      | 17,131        | 17,728        | 24,646         | 36,882         | 52,683         |
| Punj Lloyd                           | 1,118         | 3,240         | 5,232          | 15,944         | 19,596         |
| Nagarjuna Construction               | 1,492         | 4,727         | 5,428          | 7,303          | 11,380         |
| IVRCL Infrastructure                 | 1,626         | 3,906         | 6,687          | 7,013          | 10,597         |
| Hindustan Construction               | 4,727         | 5,000         | 9,672          | 9,312          | 10,158         |
| Siemens                              | 1,962         | 2,677         | 7,622          | 10,884         | 9,568          |
| A B B                                | 1,166         | 1,585         | 2,674          | 4,052          | 6,175          |
| Patel Engineering                    | 2,040         | 4,040         | 4,000          | 5,000          | 6,000          |
| Thermax                              | 1,214         | 1,123         | 1,730          | 3,672          | 2,637          |
| McNally Bharat Engineering           | 500           | 700           | 800            | 1,160          | 2,323          |
| <b>Total incl others</b>             | <b>58,782</b> | <b>78,394</b> | <b>106,717</b> | <b>167,745</b> | <b>247,806</b> |
|                                      |               |               |                |                |                |
| Bharat Heavy Electricals             | 2.67          | 3.01          | 2.56           | 2.90           | 3.94           |
| Larsen & Toubro                      | 1.75          | 1.35          | 1.77           | 2.24           | 2.19           |
| Punj Lloyd                           | 0.72          | 1.90          | 3.24           | 3.17           | 2.53           |
| Nagarjuna Construction               | 1.97          | 3.98          | 2.95           | 2.54           | 3.28           |
| IVRCL Infrastructure                 | 2.11          | 3.71          | 4.41           | 3.00           | 2.88           |
| Hindustan Construction               | 4.81          | 3.30          | 6.37           | 5.12           | 3.83           |
| Siemens                              | 1.62          | 1.67          | 3.10           | 2.59           | 1.31           |
| A B B                                | 1.09          | 1.04          | 1.38           | 1.52           | 1.79           |
| Patel Engineering                    | 5.70          | 8.67          | 5.83           | 4.96           | 6.14           |
| Thermax                              | 2.06          | 1.17          | 1.12           | 1.64           | 0.80           |
| McNally Bharat Engineering           | 2.61          | 2.40          | 2.36           | 2.25           | 4.14           |
| <b>Average wtd &amp; incl others</b> | <b>2.11</b>   | <b>2.16</b>   | <b>2.51</b>    | <b>2.41</b>    | <b>2.51</b>    |

Order book position of capital goods & construction companies (Rs. Crore)

Growth  
in 2006-07: 57%;  
in 2007-08: 47%.

Order book position as per cent of annual sales (%)

Growth in sales  
in 2006-07: 63%;  
in 2007-08: 42%.





# CMIE projections:

We are upbeat on investments & industry

|                |             |             |             |            |            | (% change) |             |
|----------------|-------------|-------------|-------------|------------|------------|------------|-------------|
|                | Agriculture | Industry    | Services    | <i>GDP</i> | PFCE       | GFCE       | GCF         |
| 2005-06        | 5.9         | 10.1        | 10.3        | <b>9.4</b> | 8.7        | 5.4        | 18.2        |
| 2006-07        | 3.8         | 11.0        | 11.1        | <b>9.6</b> | 7.1        | 6.2        | 14.4        |
| 2007-08        | 4.5         | 8.5         | 10.8        | <b>9.0</b> | 8.3        | 7.0        | 13.4        |
| <b>2008-09</b> | <b>3.2</b>  | <b>11.1</b> | <b>10.6</b> | <b>9.4</b> | <b>5.0</b> | <b>4.5</b> | <b>18.0</b> |





## Preventing a Slowdown

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- Growth in domestic demand is the biggest source of the current investments boom
- The investments boom is nascent, still
- Increase in interest rates would hurt demand growth
- Fall in demand growth would hurt investments & increase NPAs of banks like in late 1990s
- Increase in interest rates would constrain increase in supplies & fuel inflation.



## Raising interest rates will hurt

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- Most of the inflation is in intermediate products, which is hurting producers.
- This shows in their falling margins.
- The consumer prices have been shielded by these falling margins.
- Increasing supplies & competition would be a good strategy to keep inflation in control.
- Keeping interest rates low would help in this direction.
- Improving the statistical machinery to measure investments & output better & use of a more appropriate measure of inflation important.

Thank you

*The economy is doing pretty well,  
we need to measure it correctly*

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**Vision** Be the most effective source of knowledge solutions  
**Values** Independence, Integrity, Reliability