



*Economic Outlook*  
*emerging from hyped uncertainties*

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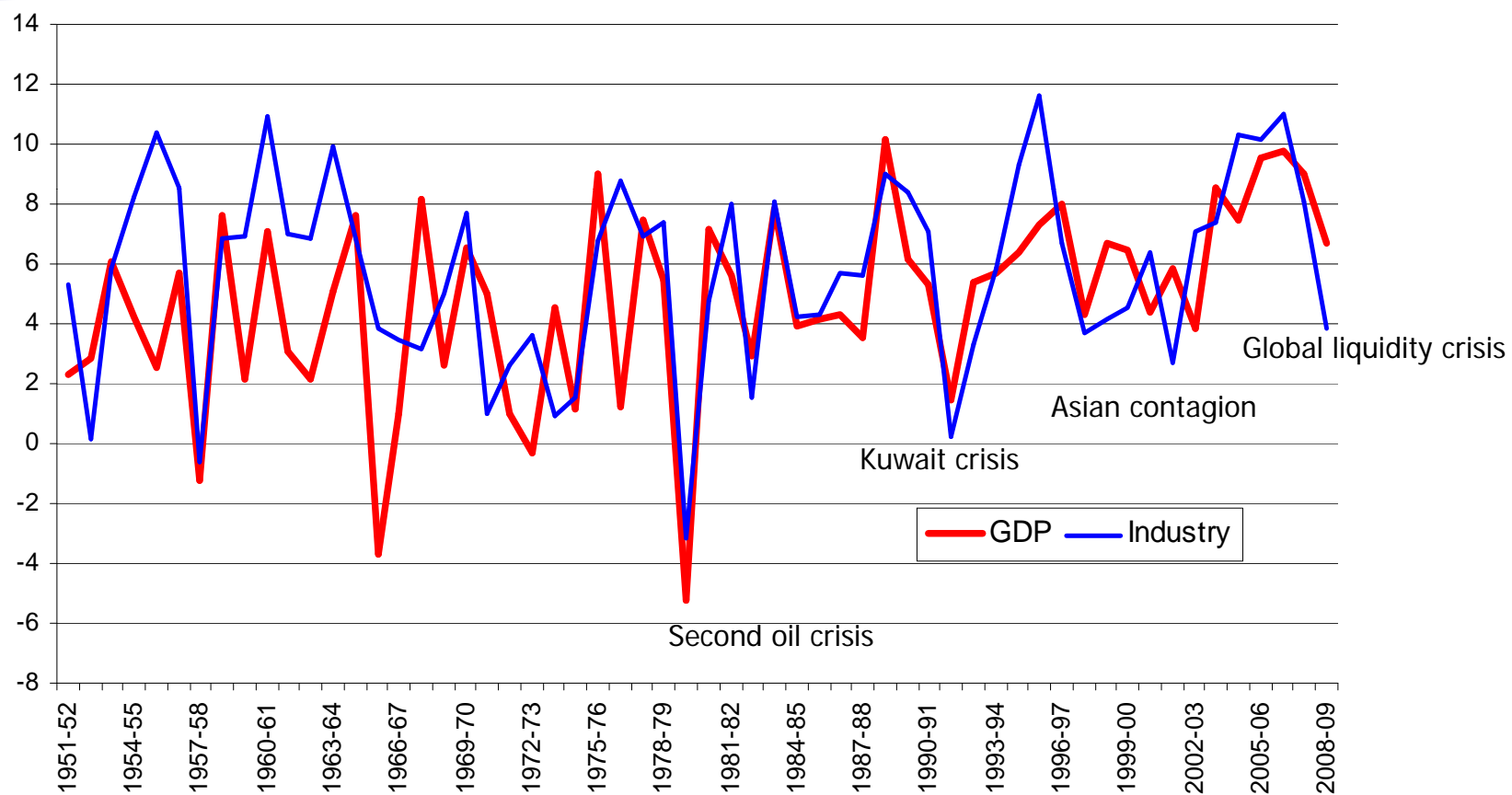
Centre for Monitoring Indian Economy Pvt Ltd

14 October 2009

New Delhi

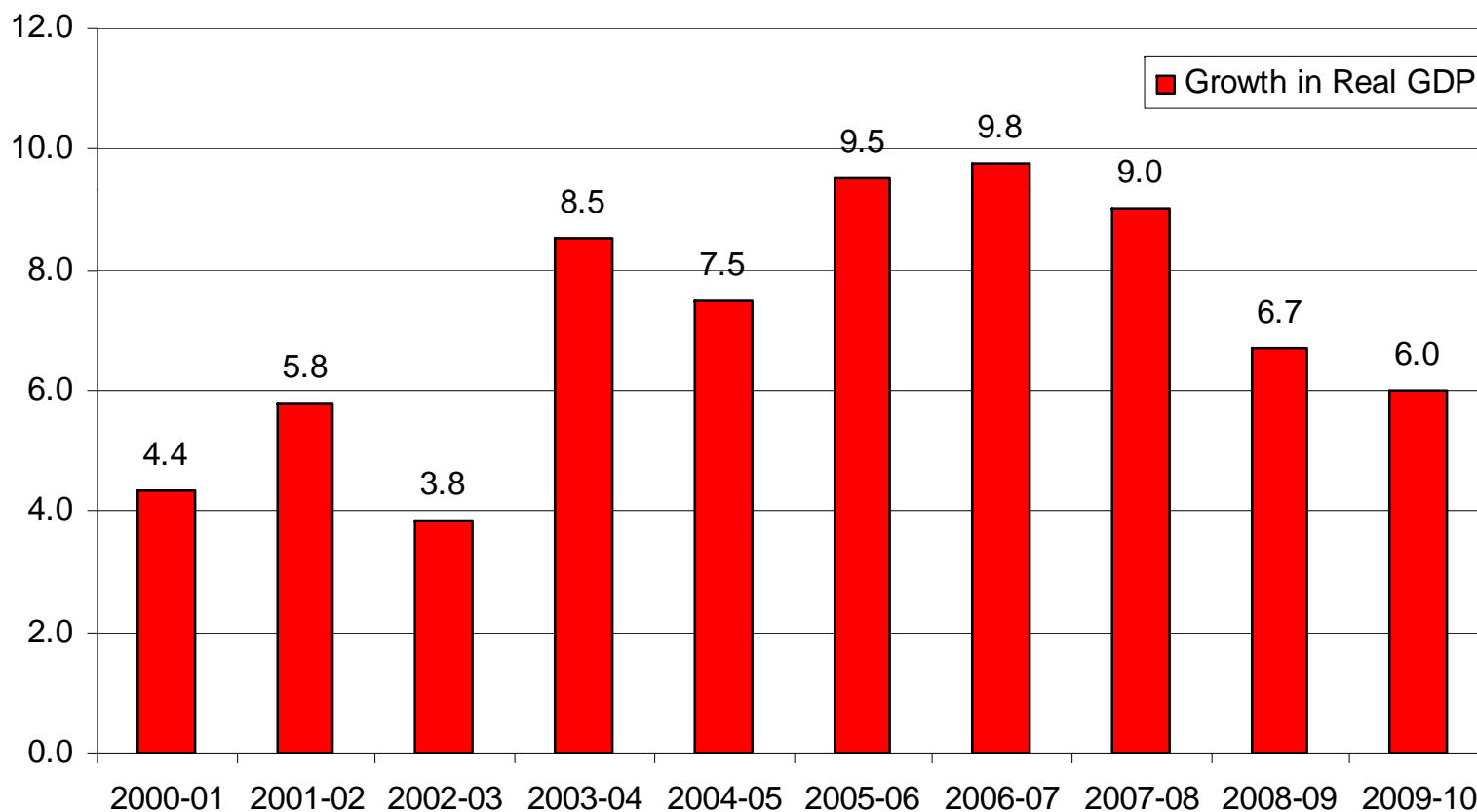
# Impact of the global liquidity crisis

## Not as severe as feared, or as in the past



# Expected growth in 2009-10

after crude ~\$130, global liquidity crisis, drought



# CMIE projections:

We are upbeat on investments & industry

						(% change)	
	Agriculture	Industry	Services	<i>GDP</i>	PFCE	GFCE	GCF
2005-06	5.8	10.2	10.6	<b>9.5</b>	8.7	5.4	18.2
2006-07	4.0	11.0	11.2	<b>9.7</b>	7.1	6.2	14.4
2007-08	4.9	8.1	10.9	<b>9.0</b>	8.3	7.0	13.4
2008-09	1.6	3.9	9.7	<b>6.7</b>	2.9	20.2	8.2
<b>2009-10</b>	<b>(2.9)</b>	<b>6.5</b>	<b>8.5</b>	<b>6.0</b>	<b>4.5</b>	<b>7.0</b>	<b>15.0</b>



# Agriculture to shrink in 2009-10

23% fall in rainfall causes a 5% fall in sowing

			(% change over year-ago)	
	2007-08	2008-09	2009-10	Kharif sowing
Foodgrain	5.6	1.4	-8.5	-7.9
Rice	3.6	2.5	-16.3	-15.5
Wheat	3.6	2.6	1.1	
Coarse cereals	20.1	-3.3	-9.0	2.0
Pulses	4.3	-1.2	5.0	5.2
Non-foodgrain				
Oilseeds	18.6	-3.4	-5.7	-5.3
Groundnut	88.9	-20.1	-16.9	-15.5
Soyabean	24.0	-9.7	-8.1	-0.2
Rapeseed & mustard	-21.6	26.3	3.1	
Cotton	14.4	-10.5	-5.0	13.4
Sugarcane	-2.1	-22.1	-7.7	-2.9
Major crops	6.9	-1.6	-6.4	-5.3
All crops	5.6	0.3	-6.4	
Livestock	3.3	0.5	4.0	
Total agriculture	4.9	1.6	-2.9	



We expect a fall in kharif yields because of delayed & erratic rains; and a recovery in the rabi crop. This will be the first fall in agriculture incomes in 7 years.



# Infrastructure & Industry improve

## Growth rates accelerate in August 2009

	(% change over year-ago)	
	August	April-August
Coal production	13.0	12.4
Power generation	10.6	6.6
Consumption of petroleum products	6.6	4.0
Freight movement on railways	15.7	6.8
Cargo movement on major ports	2.9	1.3
Air passenger traffic*	7.8	1.6
New telecom subscribers	43.7	43.1
Index of Industrial Production	10.0	6

Air passenger traffic data is for July and April-July 2009



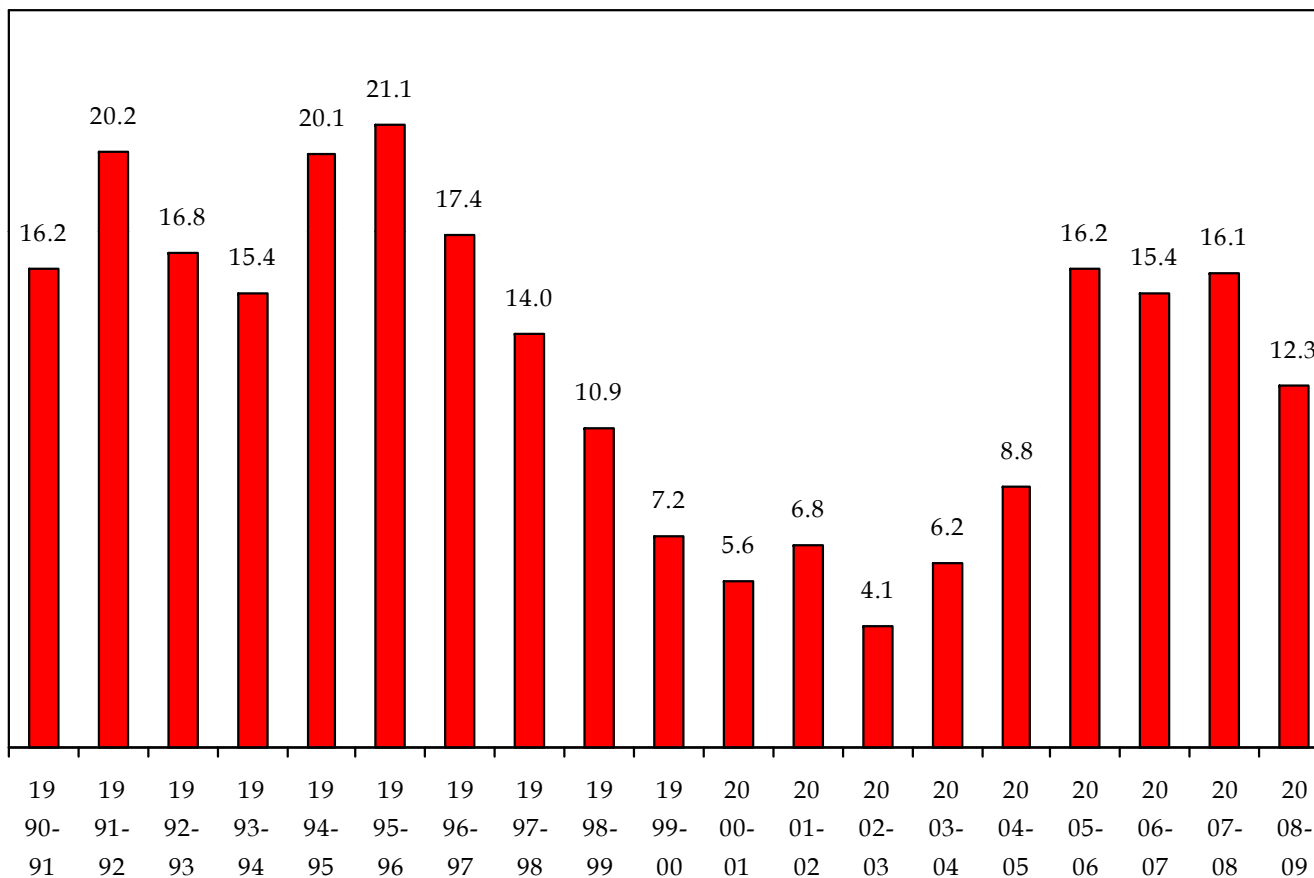


*State of the Corporate Sector*

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# GLC impacts momentum marginally

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



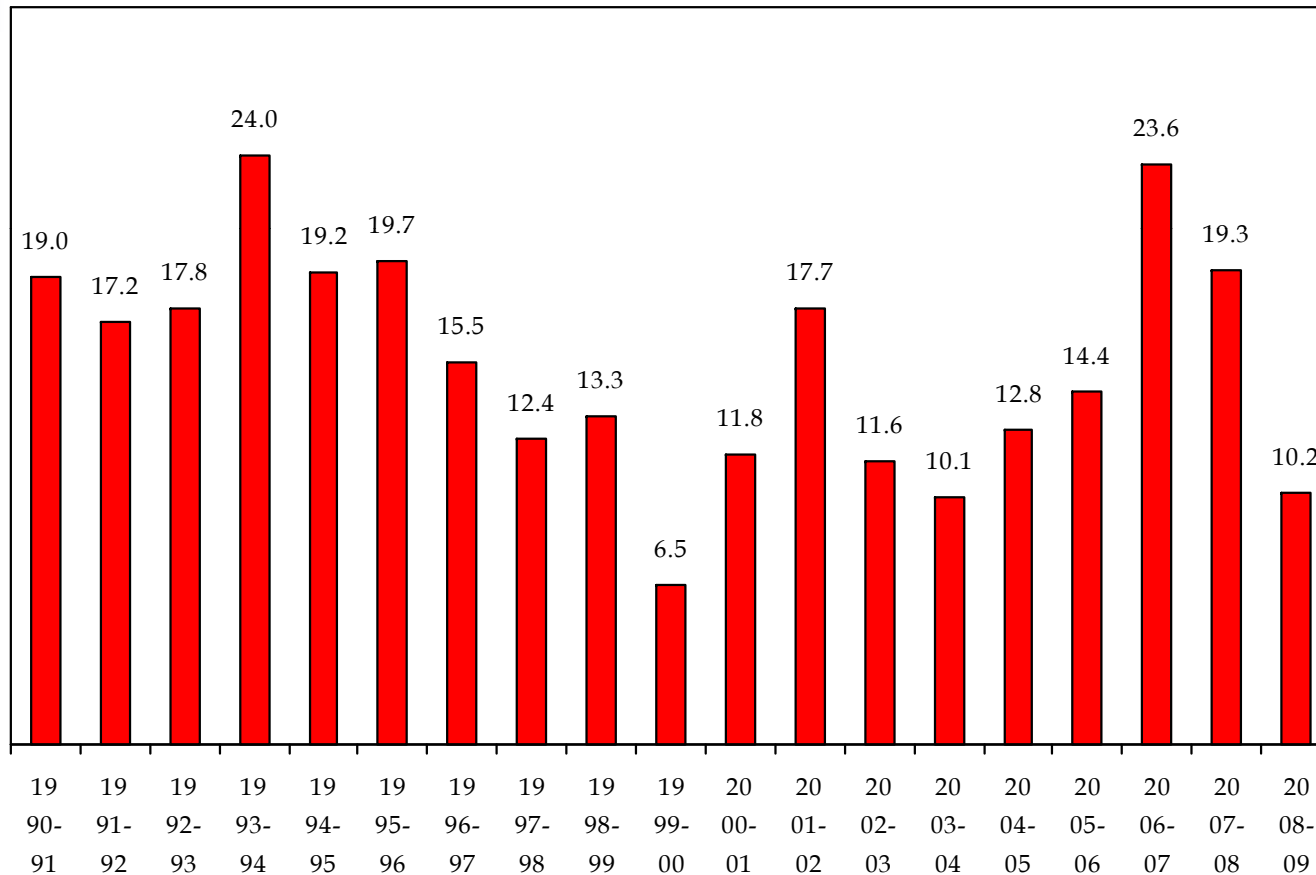
2008-09 data is provisional based on audited accounts of 1,828 companies in Prowess





# Services sectors capex growth volatile

## Growth in Gross Fixed Assets: Non-finance service cos

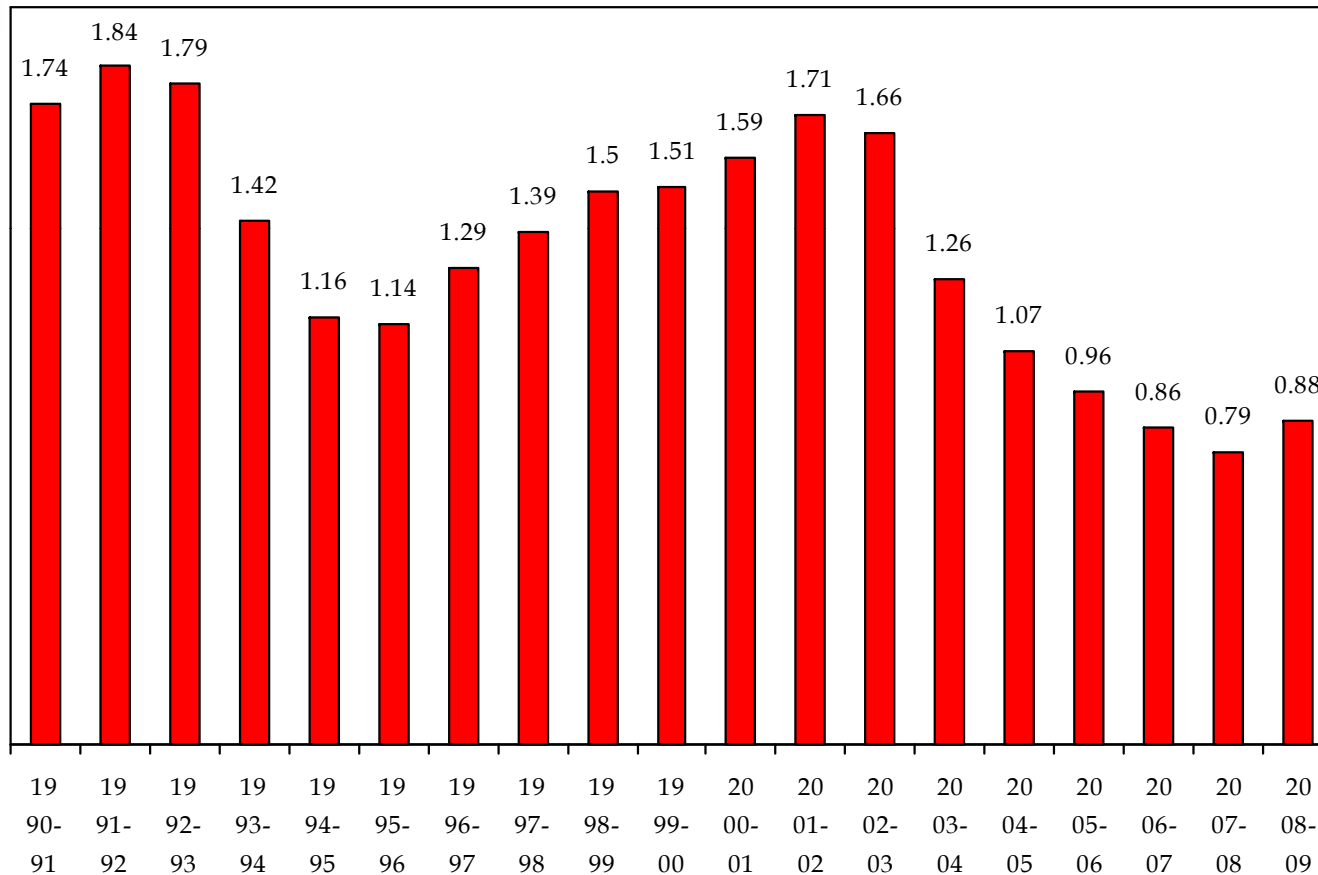


2008-09 data is provisional based on audited accounts of 775 companies in Prowess



# Companies still worthy of borrowing

## Debt:Equity Ratio: Mfg. Cos.

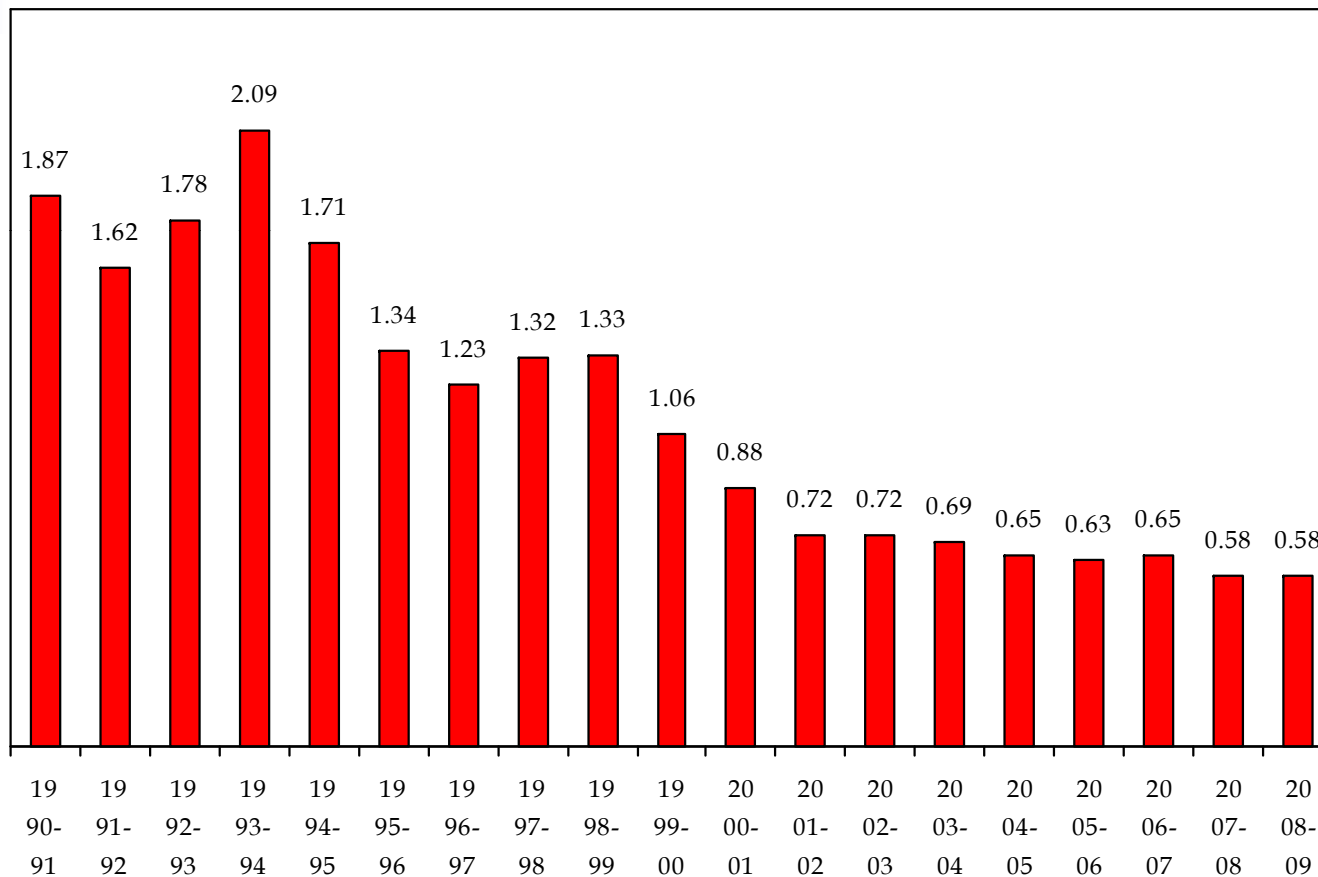


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# Well positioned to borrow more

## Debt:Equity Ratio: Non-finance Service Cos.

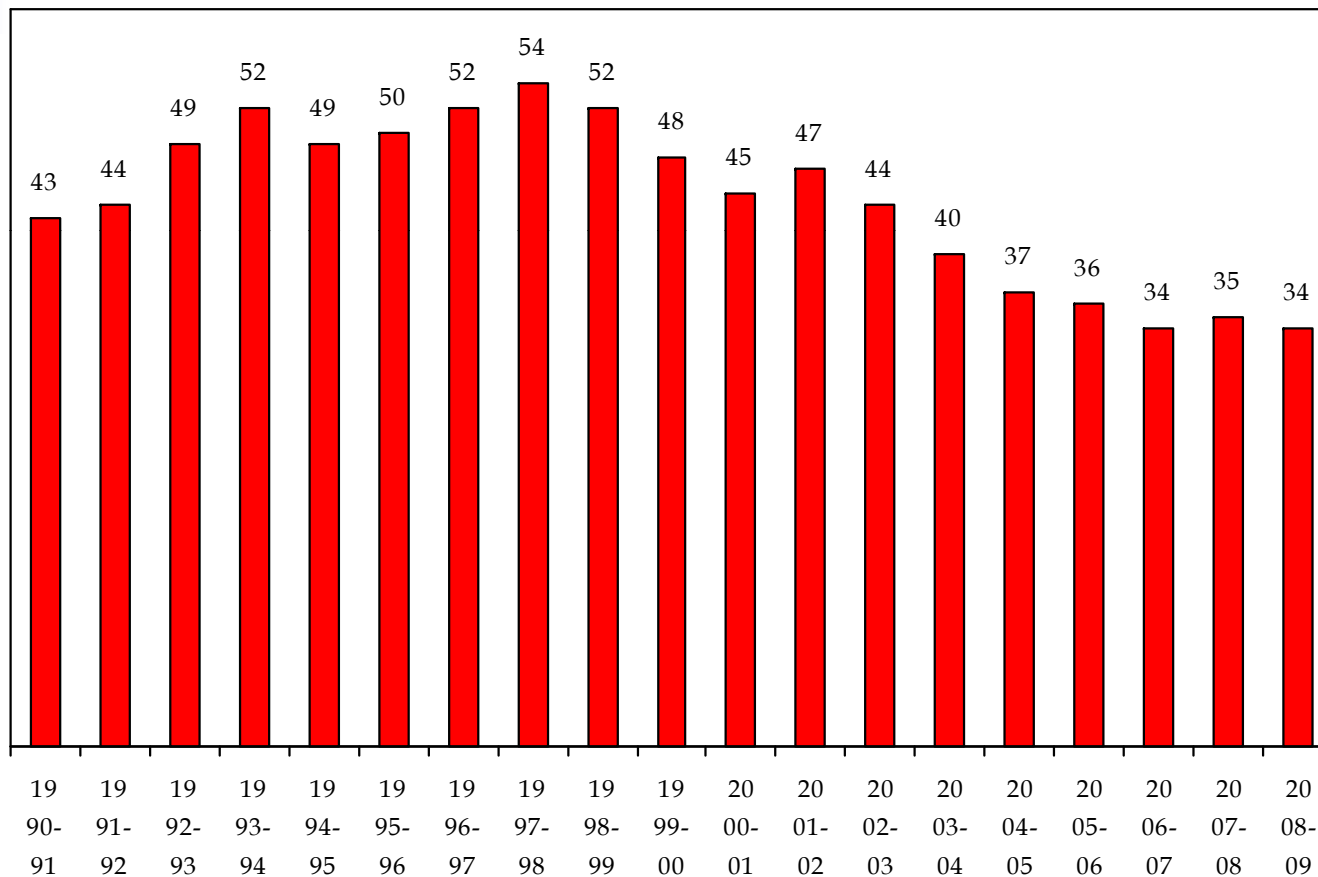


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# Year-end data looks good

## Debtors Days: Mfg. Cos.

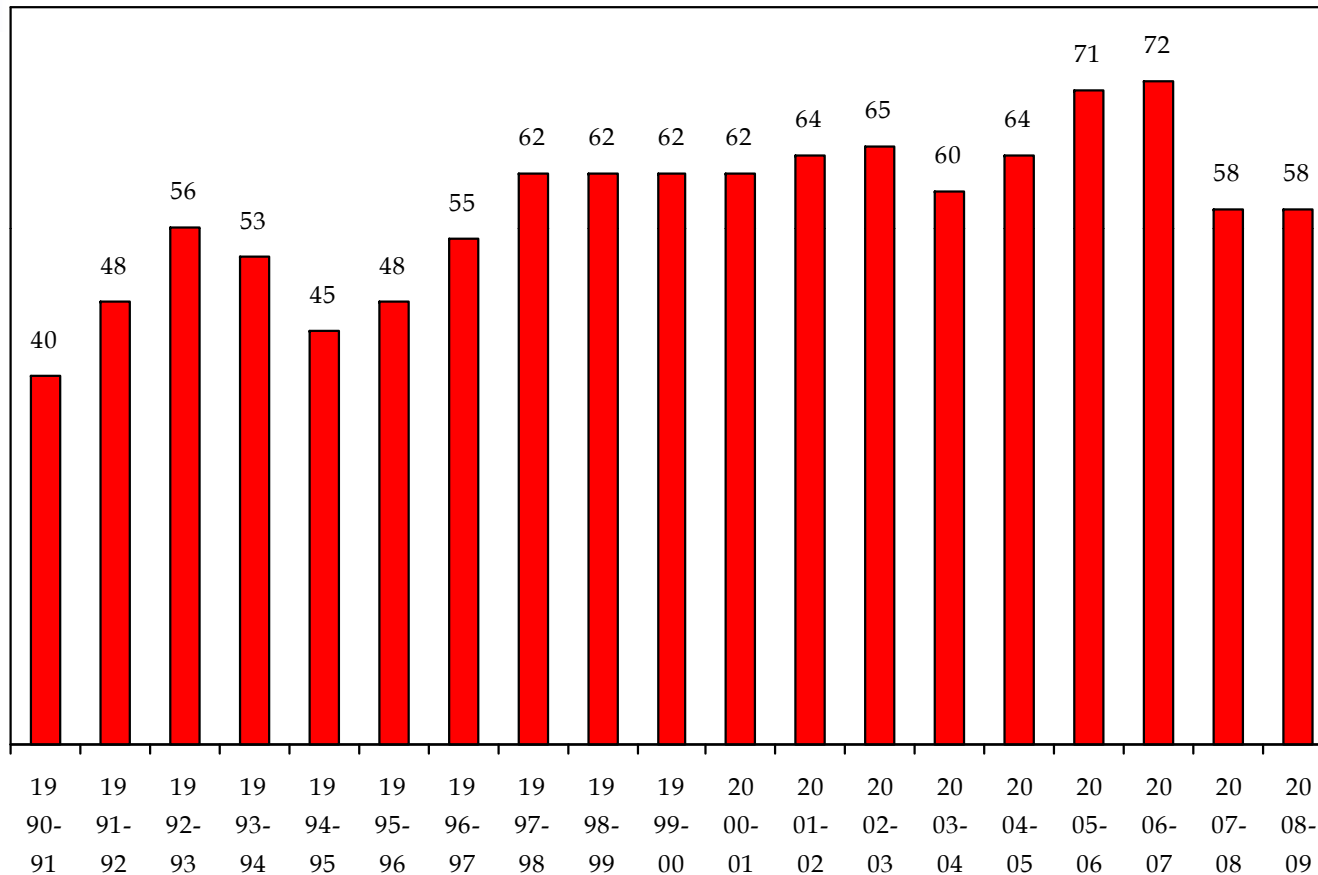


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# No Stress on Payments

## Debtors Days: Non-finance Service Cos.

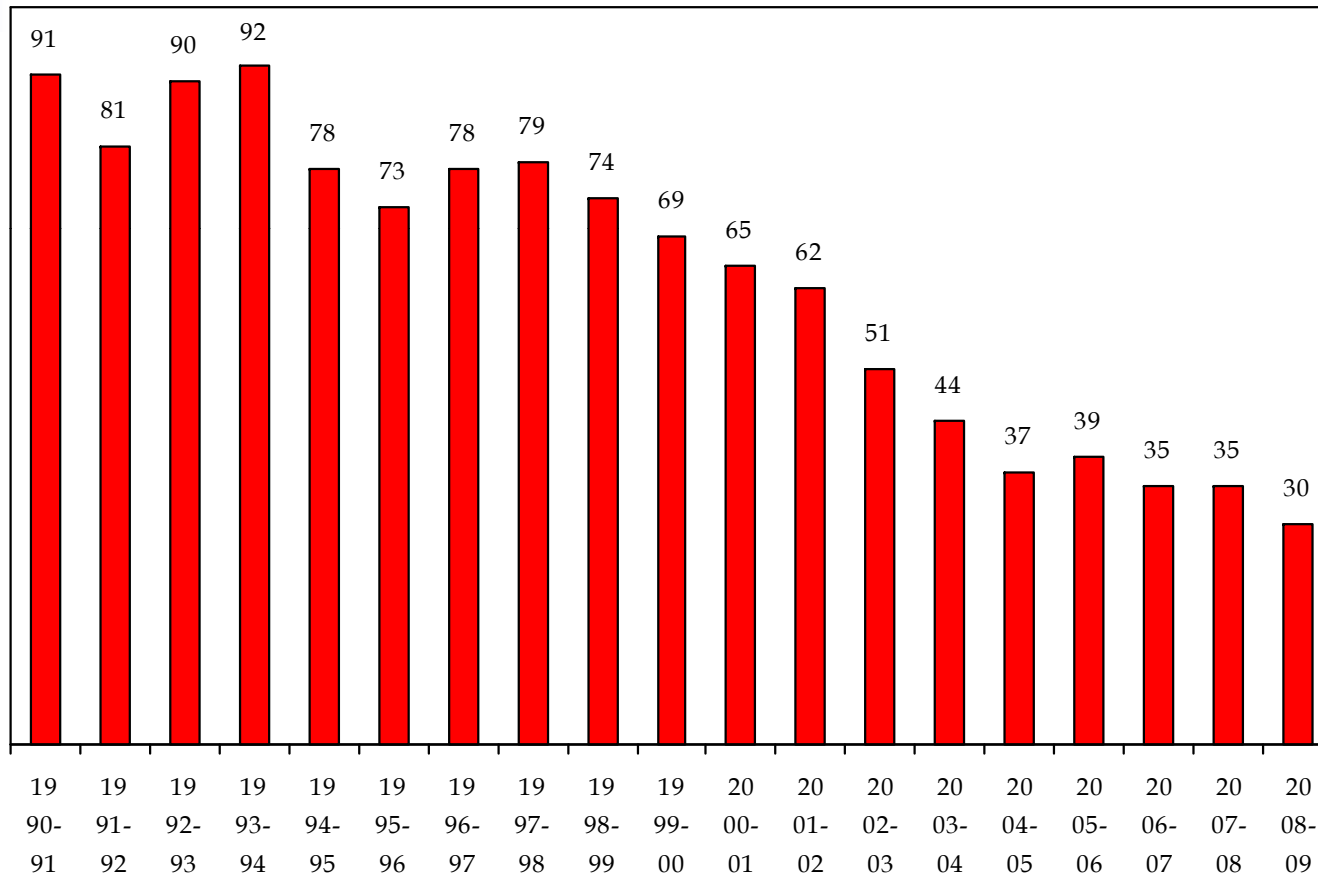


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# Efficiencies Intact

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

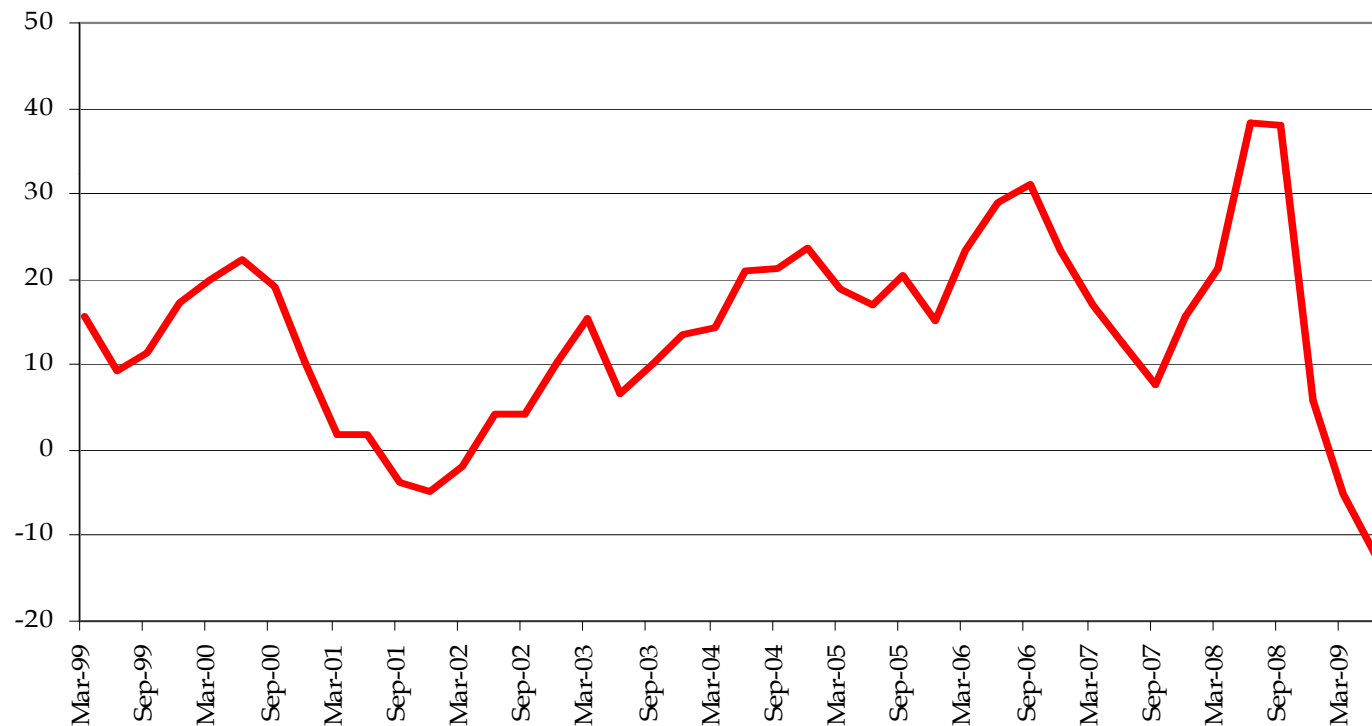


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# Fall in commodity prices hurts growth

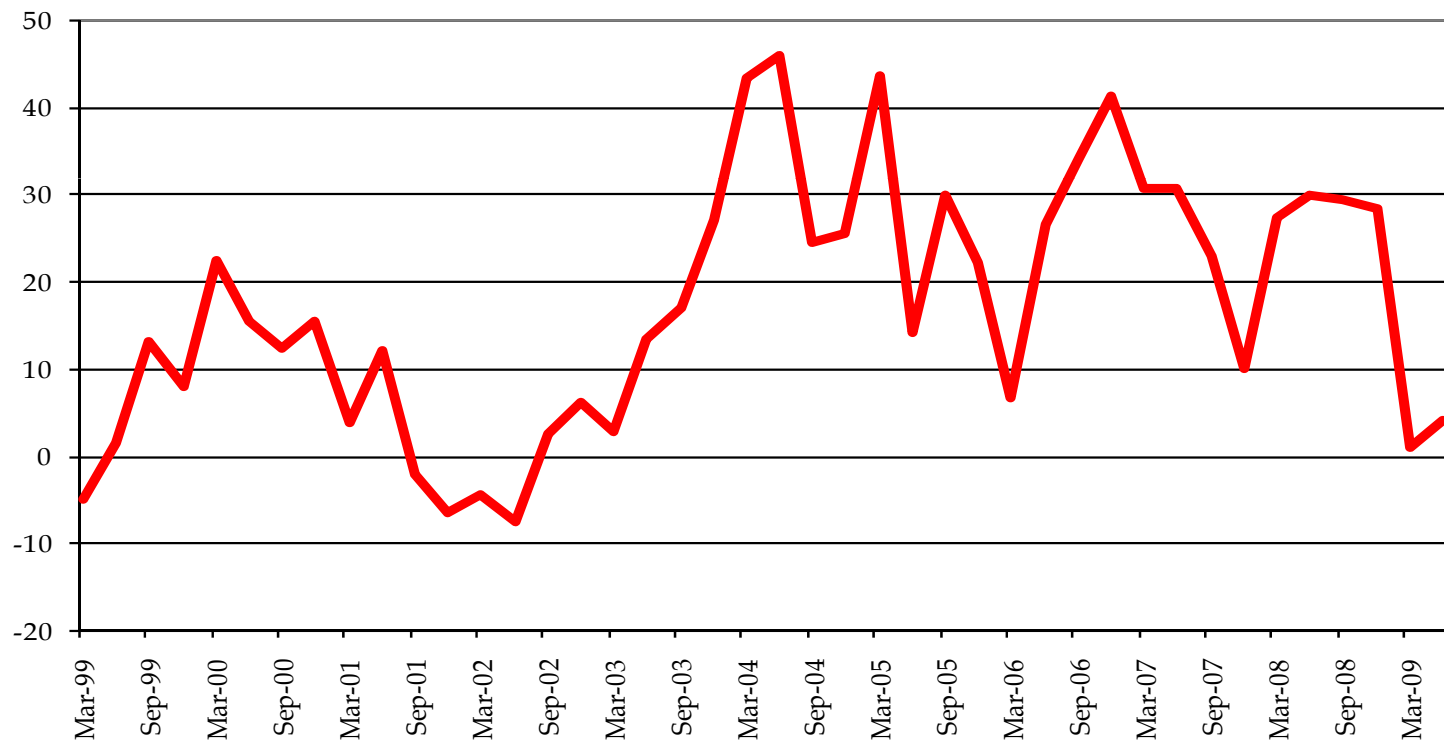
## Growth in Sales (% , y-o-y): Manufacturing cos



We expect sales growth to worsen in the September 2009 quarter before it starts accelerating. Sales growth projected to reach 16.7% in the March 2010 quarter.

# Fall in services business hurts growth

Growth in Sales (% , y-o-y): Non-finance services cos

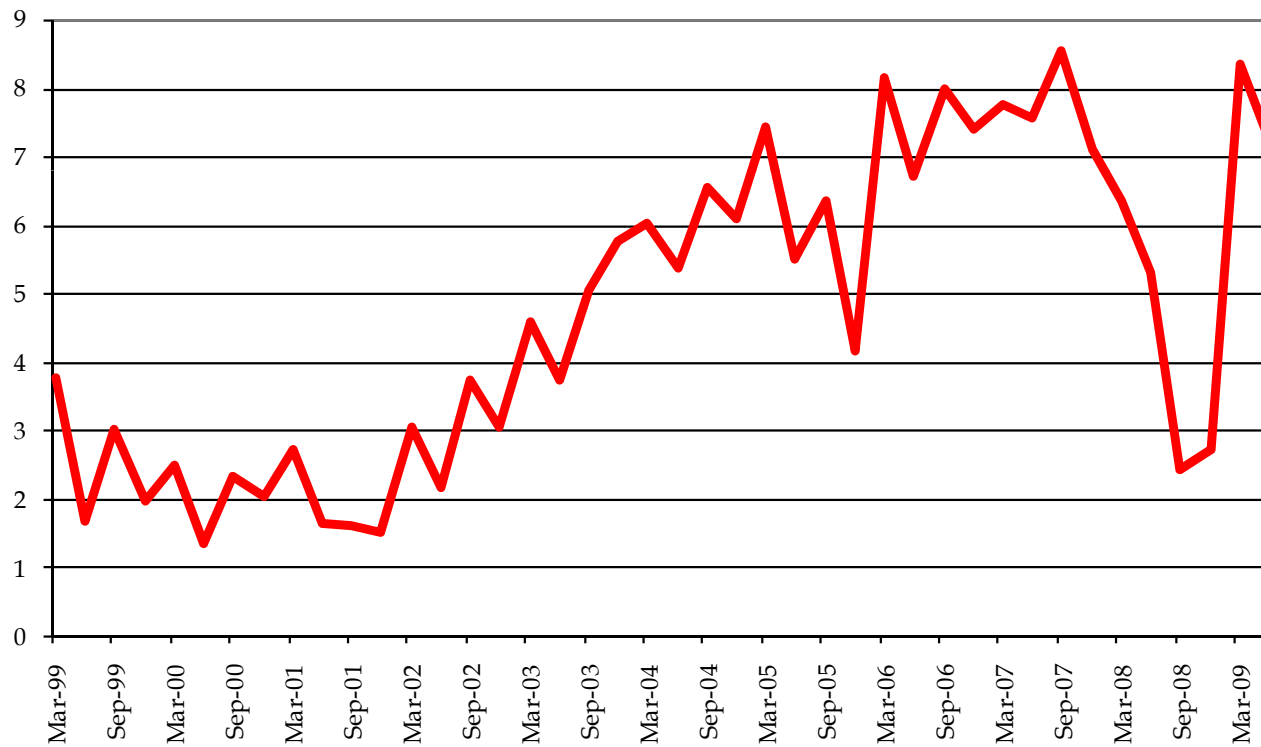


We expect sales growth to stabilise in the September 2009 quarter before it starts accelerating. Sales growth projected to reach 16.9% in the March 2010 quarter.



# Profit margins intact

Net profit margin (%): Manufacturing companies



# Profit margins intact

Net profit margin (%): Non-finance Service Cos.



# Sales accelerates, cost rise hurts

## Performance in June 2008: Mfg. Cos.

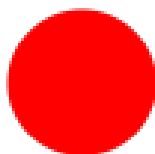
	(nominal % change over year-ago)					
	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
Income	21.5	36.1	36.4	6.5	-5.1	-11.9
Net Sales	22.1	38.7	37.6	7.1	-5.4	-13.1
Total Expenses	24.4	42.3	46.2	7.4	-11.0	-15.1
Raw materials	28.4	47.3	52.2	5.5	-16.8	-19.6
Wages & salaries	23.7	30.1	25.9	18.8	2.1	-1.1
Power & fuel	26.6	28.7	38.2	19.9	3.4	-0.6
Selling & mktg.	12.8	25.2	18.1	12.2	11.7	15.6
Other expenses	17.7	39.9	43.1	18.9	0.5	-13.9
Depreciation	11.5	11.9	15.1	13.4	13.0	19.0
Interest expenses	25.6	38.2	60.7	77.2	47.9	15.3
Tax provisions	-14.1	-1.2	-19.8	-49.9	-8.7	25.9
PBDIT	2.6	4.0	-28.6	-27.8	18.7	20.9
PAT	2.5	-4.4	-61.4	-57.6	23.8	21.6
PBDIT/Total income (%)	12.8	11.2	8.3	9.5	15.9	15.4
PAT/Total income (%)	6.4	5.2	2.4	2.8	8.2	7.3



# Profit growth & margins intact

## Manufacturing companies excluding refineries

	(nominal % change over year-ago)					
	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
Income	15.1	21.2	23.4	6.2	2.1	2.4
Net Sales	15.5	23.5	24.5	5.9	2.3	1.5
Total Expenses	17.3	23.4	29.7	12.0	1.1	-0.5
Raw materials	15.4	22.9	30.0	10.5	0.3	-1.6
Wages & salaries	27.4	23.0	26.9	12.2	-1.0	2.9
Power & fuel	26.6	28.7	38.2	19.9	3.4	-0.6
Selling & mktg.	12.8	22.6	13.1	5.0	7.4	14.2
Other expenses	19.0	30.9	37.2	18.4	0.1	-8.1
Depreciation	14.1	14.6	15.0	13.0	15.3	16.1
Interest expenses	28.0	30.0	38.3	45.8	37.6	22.5
Tax provisions	6.9	3.6	0.6	-42.6	-25.0	7.2
PBDIT	13.3	8.6	1.1	-31.5	-13.7	8.6
PAT	12.5	3.5	-11.5	-61.8	-31.4	2.3
PBDIT/Total income (%)	17.6	16.8	15.4	11.7	14.8	17.9
PAT/Total income (%)	8.9	8.1	7.0	3.2	6.0	8.2



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# Sources of our Optimism on Industry

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Sound finances of industry till March 2009

CapEx, Gearing, Liquidity

Healthy profit margins

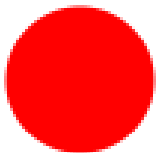
Sales growth to recover, Margins to rise

Strong demand growth expected

Domestic consumer & investment demand high

CapEx growth continues

Companies enthused to continue investments



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# *Investments Outlook*

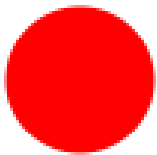
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## Investments boom continues...

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- 400 projects worth Rs.1.3 trillion commissioned in April-September 2009. Estimate expected to go up.
- Rs.3 trillion worth investments scheduled to be commissioned in October-March 2010.
- Fresh investment proposals had dropped to Rs.1.7 trillion in April-June 2009 – 3.5-year low.
- Fresh investment proposals back to Rs.3.3 trillion in July-September 2009.
- Order book position of capital goods and construction companies continue to be over 2.5 years' of sales.



CMIE

# Major industries to see capacity expansion in 2008-09

Industry	Units	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Refineries	Mln tns	0.00	5.10	16.50	0.00	29.00	13.73
Cement	Mln tns	8.00	6.40	7.60	32.48	23.97	54.00
Steel	Mln tns	4.10	3.20	5.30	3.14	3.90	4.00
Aluminium	Mln tns	0.09	0.20	0.05	0.00	0.29	0.37
Paper	Mln tns	0.26	0.00	0.24	0.01	0.78	0.78
Tyres	Millions	6.59	3.17	6.56	10.00	6.80	7.80
Electricity	MW	3465	3465	5942	5989	4916	8087







## Building upon the growth momentum

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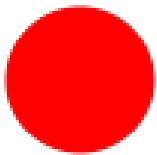
- Growth in domestic demand is the biggest source of the current investments boom
- The investments boom is nascent, still
- Increase in interest rates would hurt demand growth
- Fall in demand growth would hurt investments & increase NPAs of banks like in late 1990s
- Increase in interest rates would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



## Raising interest rates will hurt

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- Most of the inflation is in supply constrained food items.
- Increase in interest rates will not help controlling this.
- Increasing supplies & competition would be a good strategy to keep inflation in control.
- Keeping interest rates low would help in this direction for manufactured products.



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Thank you

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

Centre for Monitoring Indian Economy Pvt. Ltd.  
Established in 1976



**Mission** Help our clients take informed decisions  
**Vision** Be the most effective source of knowledge solutions  
**Values** Independence, Integrity, Reliability

# 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%.

