ECONOMIC INTELLIGENCE BULLETIN

(16-30th June 2017)

GOVERNMENT OF INDIA
DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS
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SUMMARY OF ECONOMIC INTELLIGENCE BULLETIN

Economic Intelligence Bulletin includes abstracts of important economic/commercial/ technical development and reviews as reported in the issues of financial dailies. The Bulletin pertains to the fortnight ending 30th June, 2017.

1. PRICE TREND

1.38 PETROL, DIESEL PRICES CUT BY OVER RS. 1 A LITRE

Petrol price was on 15th June cut by Rs 1.12 per litre and diesel by Rs 1.24 per litre, the last of the fortnightly revisions after which daily correction in rates in step with cost will be implemented.

From June 16, petrol and diesel rates will be revised in sync with any movement in international oil rates. Rates will change at 6 am everyday depending on movement in cost on the previous day.

Currently, prices are revised on 1st and 16th of every month based on the fortnightly average of international oil price and the foreign exchange rate.

The last of such revision was announced 15th June when petrol price was reduced by Rs 1.12 per litre, excluding state levies (VAT), and diesel by Rs 1.24 a litre, said Indian Oil Corp, the nation's largest fuel retailer.

Actual reduction would be higher after taking into account local sales tax or VAT.

(BUSINESS STANDARD 16TH JUNE 2017)

1.39 GAIL CANCELS TENDER OVER POLICY TO BUY LOCAL STEEL

GAIL has cancelled the tender for procurement of steel for its Jagdishpur-Haldia pipeline to give preference to local manufacturers.

The 700-km pipeline for the Bokaro-Dhamra section had a steel component of 170,000 tonnes and the value of the project was Rs 1,200 crore, sources said.

North China Petroleum Steel Pipe Co was the L1 bidder for more than 85 per cent of the steel supply for the project.

GAIL’s cancellation is in line with an official notification on May 8 for providing preference to locally manufactured steel in government procurement. The policy is applicable to all government tenders where price bids had not been opened till the time the notification was issued.

Sources said technical bids for the Bokaro-Dhamra pipeline segment were opened in March and price bids in April. An extension was sought for placing orders, after which the tender was cancelled.

Last week, another GAIL tender for the Vijaipur-Auraiya pipeline project was re-floated for the same reason. Technical bids for the project had been opened but not the price bids. This 358 km pipeline has a steel component of 131,000 tonnes.

Upcoming GAIL tenders are for the 542 km Bokaro-Angul section of the Jagdishpur-Haldia pipeline with a steel component of 142,000 tonnes and the 70 km Dhobi-Durgapur section with a steel component of 19,000 tonne. Including the project that has been cancelled, their combined value is around Rs 3,300 crore.

According to the notification by the steel ministry, the preference to locally made steel covers all procurement by the government and public sector undertakings. An exception is made where specific grades of steel are not manufactured in the country or where the quantity sought cannot be met from domestic sources.

(BUSINESS STANDARD 20TH JUNE 2017)

1.40 PHARMA, IT NEEDN'T BE GOOD CONTRA CALLS

There are only two sectors, pharmaceuticals and information technology (IT), which have disappointed investors in the past year. In a year when the National Stock Exchange's Nifty 50 is up 17.2 per cent, and all sectoral indices have given positive returns, pharma and IT sectoral indices, which have declined with 11.3 per cent and 10.6 per cent, respectively, stand out like sore thumbs. While pharma and IT mutual fund schemes have done better by falling much less, that is, -3.68 per cent (pharma) and -5.11 per cent (IT), it is still disappointing for investors who are seeing a bull run even in small-cap stocks.

Over a 10-year period, things are quite different. Amid the trio of defensives — fast moving consumer goods (FMCG), pharma and IT — FMCG funds have returned 19.49 per cent, pharma funds 14.80 per cent and IT funds 6.84 per cent annually, according to data from Value Research. Except IT funds, the other two have done better than the Nifty (8.63 per cent a year) over the same period.

While the FMCG sector's good run has continued, pharma and IT companies' fortunes have gone downhill. So, does it make sense to invest in there? Investment advisor Arun Kejriwal says it isn't. "In these two sectors, all companies are suffering from some problems or the other. Also, one does not know when things will improve. I would rather wait for a few months to get a better outlook before I invest as a contra call," he says.

The argument against taking contra calls against these sectors, say experts, is the problems that they are facing haven't gone away. For example, the IT industry is facing a political pushback in the US, its major market. A recent Nomura report has pointed out that while IT companies are trading at near historical discounts to other defensive sectors like FMCG, valuations are not cheap enough to ignore structural issues or external risks. Going forward, the brokerage house is cautious on margins of IT companies, given the rupee's appreciation and the need to change onsite staffing. "We expect FY18 to start off slow and see risks from structural issues and external risks to outweigh cyclical improvements," says the report.

Pharma is going through similar pains, as the industry is under significant pressure due to increased scrutiny from US Food and Drug Administration (USFDA). Leading companies like Sun Pharmaceutical, Lupin and Wockhardt are all finding themselves in some trouble or the other with the regulator. While reports suggest some fund managers are beginning to take contra calls on this sector, many others are still unconvinced.

“The pharma sector has been consistently facing problems from the regulator — a much deeper problem. The industry needs to take a serious look at its quality issues,” said a fund manager, who did not wish to be named. There are pricing pressures as well.

A study by Evaluate Pharma recently estimated there would be a $390 billion drop in global pharma sales over the next five years, following pricing pressure and greater scrutiny on drug pricing in the US. While the impact on Indian companies is yet to be quantified, as the sector is the biggest supplier of drugs to the US, it is obvious that they would be hit. “I would wait for another six months at least to buy stocks or funds in this sector. Yes, there is a chance that there might be some turnaround in their fortunes because of steep falls, but even if I buy at 10-15 per cent higher than current prices, it is worth the risk,” says the fund manager.

“It would be wise for investors to build a portfolio of stocks in IT and pharma sectors across large and small-caps through a systematic investment plan, rather than lumpsum buying,” says Nilesh Shah, MD, Kotak Mutual Fund.

ALL FALL DOWN

	All-time high		Price (₹)	Change from
	Price (₹)	Date	Jun 21, 17	all-time high (%)
S&P BSE IT	**11,927.5**	**Aug 19, 15**	**9,920.4**	**–16.8**
TCS	2,834.0	Oct 07, 14	2,406.1	-15.1
Infosys	1,278.0	Jun 03, 16	944.0	-26.1
Wipro	437.0	Feb 22, 00	255.9	-41.4
HCL Technologies	1,058.2	Mar 11, 15	844.1	-20.2
Tech Mahindra	749.5	Feb 02, 15	391.2	-47.8
S&P BSE Health care	**18,842.7**	**Aug 20, 15**	**14,065.6**	**–25.4**
Sun Pharma	1,200.7	Apr 07, 15	528.0	-56.0
Cadila Healthcare	558.0	Jun 12, 17	520.7	-6.7
Lupin	2,127.0	Oct 06, 15	1,094.3	-48.6
Piramal Enterprises	3,083.1	Jun 13, 17	2,874.2	-6.8
Dr Reddy's Labs	4,383.0	Oct 20, 15	2,684.4	-38.8

Source: Exchange; Compiled by BS Research Bureau

(BUSINESS STANDARD 22ND JUNE 2017)

1.41 GOLD PRICES SHINE ON GLOBAL CUES, JEWELLERS’ BUYING

Gold prices went up by Rs 60 to Rs 29,160 per ten grams at the bullion market 27th June, tracking a firm trend overseas and fresh buying by local jewellers. However, silver remained under selling pressure and fell further by Rs 50 to Rs 38,900 per kg. Traders attributed the rise in gold prices to a firm trend in global markets ahead of comments from Federal Reserve for further signs of the central bank’s likely rate hike trajectory and fresh buying by local jewellers at the domestic spot market.

Globally, gold rose 0.63 per cent to USD 1,252.30 an ounce in Singapore. In the national capital, gold of 99.9 per cent and 99.5 per cent purity moved up by Rs 60 each to Rs 29,160 and Rs 29,010 per ten grams, respectively.

Sovereign, however, remained flat at Rs 24,400 per piece of eight grams. On the other hand, silver ready further fell by Rs 50 to Rs 38,900 per kg and weekly-based delivery went down by Rs 60 to Rs 38,425 per kg. Silver coins, however, remained unaltered at Rs 72,000 for buying and Rs 73,000 for selling of 100 pieces.

(FINANCIAL EXPRESS 28TH JUNE 2017)

2. FISCAL POLICY

2.27 I-T DEPT BLOCKS DIVIDEND TO CAIRN ENERGY

Cairn Energy Plc said on 19th June the Indian income tax (I-T) department had issued an order to Vedanta Ltd, directing it to pay the government any sums that were due to the Edinburgh-based company.

Cairn said Vedanta owed it $104 million, including historical dividends of $53 million and a further dividend of $51 million after the merger of Cairn India and Vedanta.

The June 16 direction comes even as a tribunal on June 9 issued an order memorialising numerous confirmations from the Indian government that the dividends were no longer restricted and authorising the order be provided to Cairn India, now part of Vedanta.

Vedanta said it had advised banks, holding approximately Rs.666 crore in the dividend account to transfer the amount to the I-T authorities. “It may be recalled that the dividends due to Cairn Energy Plc for the last three years were lying in an unpaid dividend account as initially they were subject to an attachment order u/s 281B by the Tax Department and were not available for use by Cairn (now Vedanta Ltd),” Vedanta said.

In March, Cairn announced it had received confirmation from the Indian government through an international arbitration tribunal that dividends of $53 million due from Cairn India were no longer restricted and it requested immediate release of that sum.

“Notwithstanding this action by the GoI, international arbitration proceedings are progressing in respect of the group’s claim under the UK-India Bilateral Investment Treaty. Cairn is seeking full restitution for treaty breaches resulting from the expropriation of its investment in India in 2014, the attempts to enforce retrospective tax measures and the failure to treat the company and its investments fairly and equitably,” Cairn said in a statement.

The company said it had a “high level of confidence” in its case under the treaty in addition to resolution of the retrospective tax dispute. Its claim seeks damages equal to the value of the group’s residual shareholding in Cairn India at the time it was attached (approximately $1 billion).

The company commenced international arbitration against Indian tax authorities in 2015. The seat of the arbitration is The Hague in the Netherlands and final hearings for the tribunal are scheduled for January 2018.

(BUSINESS STANDARD 20TH JUNE 2017)

2.28 Q4CAD AT 0.6% OF GDP IN Q4, 0.7% FOR FY17

India's Current Account Deficit increased to $3.45 billion, or 0.6% of the gross domestic product (GDP) for the fourth quarter of FY17 from 0.1% of the GDP in the year-ago quarter due to a widening of the merchandise trade deficit. However, on a sequential basis, the CAD narrowed in Q4FY17 from $8 billion or 1.4% of the GDP in the previous quarter which saw higher goods trade deficit and lower private transfers. While the CAD in the final quarter of last fiscal was benign, a big sequential jump in net portfolio inflows – $10.8 billion in Q4FY17, as against (-)$11.3 billion in the previous quarter – and an increase in short-term loans boosted the capital account. Both equity and debt portfolio inflows were robust in Q4FY17, with net inflows of $6.4 billion and $4.7 billion, respectively.

(FINANCIALEXPRESS 16TH JUNE 2017)

2.29 CAPITAL GAINS TAX EVASION UNDER CBI SCANNER

The Central Bureau of Investigation (CBI) is probing if any government officials were involved in misusing stock exchange platforms to benefit from the long-term capital gains tax (LTCG) exemption.

According to sources, CBI officials visited the headquarters of the Securities and Exchange Board of India (Sebi) in Mumbai to get relevant files pertaining to LTCG cases probed by the markets regulator.

This comes at a time the income tax (I-T) department is probing the entities which had allegedly misused capital gains provisions to evade taxes worth Rs 34,000 crore.

Gains made from the sale of shares held for more than a year are exempt from taxes.

According to sources, the CBI is trying to gather information if any government official made any undue gains by being the end-beneficiaries.

"We have collected some relevant documents along with transaction trails with regard to the companies that appeared to have misused the trading platforms to evade taxes. We suspect that there are high chances of government officials being involved, especially as end-beneficiaries," a CBI source said. "The undue advantage could be hidden and may have been done in a multi-layered arrangement, which needs to be identified."

Sources said the central agency was in the process of vetting the documents and would accordingly take a call on registering a case against the suspected beneficiaries.

The issue is critical as a few instances of abuse have been reported despite several measures taken by the regulator and the bourses. The intensity of the matter has raised the probability of revocation of capital gains benefits.

So far, investigations by the Sebi revealed that 11,000 entities have bought shares of more than Rs 5 lakh each in the past three years in listed firms that might not have any business operations. The Sebi has identified these entities using data analytics and trading and surveillance data.

The probe suggests that such deals were aimed at evading capital gains tax by showing the source of income as legitimate from stock markets. The so-called losses, actually bogus losses, are showed in the books to offset the same against capital gains.

The modus operandi is thus: Operators advise beneficiaries to invest in the listed companies, which allot shares on preferential basis at a nominal rate. These shares are under a lock-in period for a year.

Subsequently, these operators manipulate the scrip. They also rope in entities to provide the “last traded price” to book LTCG and also to buy shares at a higher price. The beneficiary pays cash to the operator through a multi-layered structure from the gains made by evading taxes.

The markets regulator had reservations that the cases were about tax evasion, which do not fall under its purview. However, if share prices were manipulated, it could proceed under section 11B of the Sebi Act, which allows it to impound the sale proceeds.

It also pointed out that the evidence provided by the tax department was not sufficient to establish connections between promoters of companies, beneficiaries and the “last traded price” and “exit” providers.

(BUSINESS STANDARD 21ST JUNE 2017)

3. IMPORT AND EXPORT POLICY

3.27 SEAFOOD EXPORTS TO GROW ABOVE 20% IN FY18

Seafood exports are likely to grow over 20 per cent in 2017-18 after the figures touched an all-time high of $5.78 billion (Rs 37,870.90 crore) in 2016-17.

The exporters are upbeat despite the fact that the major importing countries are taking protectionist measures to safeguard their local industries.

Recently, The American Shrimp Processors’ Association has named India, along with Indonesia, Thailand, Vietnam, Mexico, China, and Malaysia, as seven of the 13 countries with which the US ran a significant overall shrimp trade deficit in 2016. The US trade deficit in shrimp was $4.5 billion in 2016.

(BUSINESS STANDARD 16TH JUNE 2017)

3.28 MAY EXPORTS UP 8%; TRADE DEFICIT WIDENS

India’s exports grew by 8.32 per cent to $ 24.01 billion in May, mainly on account of robust performance by sectors like petroleum, chemicals, engineering goods as well as gems and jewelry. Imports too jumped 33.09 per cent to $ 37.85 billion last month from $ 28.44 billion in May 2016, according to the data released by the commerce ministry. A huge jump in gold imports pushed up the trade deficit to $ 13.84 billion during the month under review from $ 6.27 billion a year ago. The imports of the precious metal rose 3-fold to $ 4.95 billion in May compared to $ 1.47 billion in the same month last year.

(FINANCIALEXPRESS 16TH JUNE 2017)

3.29 INDIA'S OIL IMPORTS FROM IRAN PLUNGE OVER GAS FIELD ROW

India's oil imports from Iran have fallen to their lowest since June 2016, shipping data shows, in possible retaliation for Tehran not awarding a gas field development to Indian companies.

India, Iran's top oil client after China, shipped in 487,600 barrels per day (bpd) in May, about 9 percent less compared with April and nearly 40 percent less than a peak registered in October, according to ship tracking data obtained from sources and data compiled by Thomson Reuters Oil Research & Forecasts.

Most Western-led sanctions against Tehran's nuclear programme were lifted in January last year, and India's Iranian crude imports began climbing two months later in March.

In the fiscal year to March 2018, though, India has said it plans to order about a quarter less Iranian crude due to a snub over development of Iran's Farzad B gas field.

"We stood by them in difficult times. We still buy substantial amounts of oil from them, and we expect reciprocity from Iran," Indian oil minister Dharmendra Pradhan told reporters on 14^{th} June when asked if India was still hopeful of getting the development rights for the Farzad B field.

Following years of seeming rapprochement over the field, Iran has likely reached an agreement on the concession with Russia's state-controlled gas giant Gazprom, Russian and Indian media have reported.

Iran last month said India had not offered an acceptable proposal on the Farzad B development.

Sri Paravaikkarasu of energy consultancy FGE said India's lower Iran imports were a "reaction of Iran's decision to award the gas field to Russia and the availability of cheaper grades like those from Russia."

India was one of four countries - China, Japan and South Korea being the other three - that continued to import large amounts of Iranian oil after sanctions were toughened in 2012.

Some of the drop in imports from Iran may be due to lower demand. Overall, India imported about 4.2 percent less oil in May, compared with April, due to a shutdown of the 180,000-bpd Bathinda refinery for upgrades.

In the first five months of 2017, India's oil imports from Iran still jumped about 64 percent, the data showed.

While Iran's oil exports to India are stalling, supplies to Europe and Turkey hit their highest level since the lifting of sanctions in 2016.

(FINANCIAL EXPRESS 16TH JUNE 2017)

4. MISCELLANEOUS

4.52 AMUL'S TURNOVER GROWS 18% IN FY17

The Gujarat Co-operative Milk Marketing Federation (GCMMF), which sells the Amul brand of products, claimed that it has managed to increase farmers' income nearly four times in the past seven years.

During these years, the GCMMF has more than doubled the price of buffalo milk — from Rs24.30 a litre in 2009-10 to Rs49 a litre in 2016-17 — it procures from farmers. At the same time, the cooperative's milk procurement, too, doubled during the same period, from 9.09 million litres per day (mlpd) to 17.65 mlpd.

The cooperative's sales turnover increased 3.5 times, from Rs8,005 crore in 2009-10, to Rs27,043 crore in 2016-17. In 2015-16, it had clocked a turnover of Rs22,972 crore.

(BUSINESS STANDARD 16TH JUNE 2017)

4.53 GROWTH IN NON-FOOD CREDIT AT 3-MONTH HIGH

Growth in non-food credit rose to a three-month-high of 6.63% year-on-year during the fortnight ended June 9 from 5.86% in the previous fortnight, according to provisional data released by the Reserve Bank of India (RBI). The corresponding figure in the year-ago period was 9.33%. Outstanding loans to companies and individuals rose to Rs76 lakh crore from Rs75.33 lakh crore a fortnight ago. Total bank credit rose 5.95% y-o-y to Rs76.58 lakh crore, as against a 5.08% growth in the previous fortnight and 9.01% in the year-ago period. Aggregate deposits with the banking system grew 10.84% y-o-y to Rs105.78 lakh crore. This was higher than the May 26 figure of Rs105.51 lakh crore. The credit-deposit (CD) ratio of the banking system, or the proportion of deposits deployed as loans, rose 43 basis points (bps) from the fortnight ended May 26 to 72.4% . The credit growth was subdued in recent quarters in an environment of muted private-sector investment. In addition, increased levels of disintermediation have also hurt demand for bank credit.

Money raised by corporates through bonds and commercial paper (CP) so far in 2017 added up to at least Rs1.55 lakh crore, as against a net Rs3.57 lakh crore disbursed by banks in non-food credit, as of May 26. According to RBI data, the net issuance of CPs, as of June 15, stood at Rs26,720 crore, while data from the Securities and Exchange Board of India (Sebi) showed net corporate bond issuance during the quarter ended March stood at Rs1.28 lakh crore. Analysts note that banks saw an improvement in credit offtake in the quarter ended March. In a note dated June 5, Kotak Institutional Equities wrote, "Growth across segments except large corporate appeared to be better sequentially as 3QFY17 was impacted by demonetisation." Banks expect incremental growth to be driven by retail. ICICI Bank chief executive Chanda Kochhar told reporters after the bank's Q4 results, "Looking ahead for FY18, we expect domestic loan growth to be around 15-16%, driven by 18-20% growth in the retail segment and about 15-20% growth in the SME segment." She gave no outlook for growth in corporate credit.

(FINANCIAL EXPRESS 22ND JUNE 2017)

4.54 BOFA-ML PEGS OVER 15% CREDIT GROWTH IN FY18

Credit growth may pick up to 15 per cent in FY18 from 9 per cent in FY17 with the demonetisation shock tapering off and rate cuts on the anvil, said Bank of America- Merrill Lynch (BofA-ML) 27th June 2017.

"We expect loan growth to pick up to 15 percent in FY18 from 9.1 percent in FY17 as Reserve Banks OMOs worth Rs 1.10 trillion in the second half of the year will likely push up loan supply to close the credit gap to pull down lending rates by up to 25-50 bps by September and spur loan demand," the Wall Street brokerage said in a report here.

However, according to the RBI, credit growth had slipped to the lowest level since Independence in FY17, falling to paltry 5.1 per cent. In FY1951, credit growth had stood at a meagre 1.8 per cent.

The massive decline, according to domestic rating agency Crisil, was due to massive drop in bank borrowings by top companies as top 1,000 companies borrowed a little over Rs 1 trillion less in FY17 over FY16, out of which top 10 alone borrowed Rs 33,571 crore less, according to a Crisil report on 27th June.

According to BofA-ML, Re 1 of OMO generates Rs 4 of loan supply. On top of this the note ban also added temporary liquidity to the tune of Rs 4 trillion to banks.

The brokerage estimates the RBI to do Rs 1.1 trillion worth of OMOs in the second half of the current year, which will pull down the 10-year g-secs yield due to excess G-sec demand.

On rate cuts, the report expects the RBI to lower repo rates by 25 bps at the August 2 policy to signal a bank lending rate cut before the busy industrial season commences in October.

Also, the ongoing measures to address bad loans and bank recapitalisation will ease capital constraints on lending.

"Plugging in 6 per cent real GDP growth and 3 per cent core WPI inflation for FY18, we obtain 15.9 per cent credit off-take," the report added.

(BUSINESS STANDARD 28TH JUNE 2017)

4.55 'INFLATION TARGETING' CAN'T WORK IN INDIA: JALAN

Former RBI Governor Bimal Jalan on 25th June said that 'inflation targeting' cannot work in India as prices depend on a range of factors like monsoon and oil prices over which neither the RBI nor the government has any control.

"Inflation targeting is fine for countries like the US and the UK. But we (India) are dependent on rain, import of oil from Gulf countries. In India, there is no point in setting inflation target," Jalan said at a function to release a book written by former RBI Governor Y V Reddy.

"What can the RBI do if food prices go up by 40 per cent as a result of monsoon failure?", Jalan questioned.

Under the new Monetary Policy Framework, the RBI aims to contain inflation at 4 per cent with a band of (+/-) 2 per cent.

(THE ECONOMIC TIMES 28TH JUNE 2017)