ECONOMIC INTELLIGENCE BULLETIN

(1-15th July 2017)

GOVERNMENT OF INDIA
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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 15th July, 2017.

1. PRICE TREND

1.42 INDIAN FIRMS' DRUG APPROVALS BY US RISE 50% IN 2017

At a time when the US business for the Indian pharmaceutical industry is in slow lane, drug approvals by the US Food and Drug Administration (FDA) have risen sharply.

Data collated from the FDA website show between January and June, Indian companies, including their US-based subsidiaries, received 141 drug approvals. This is significantly higher than the 94 approvals received during the same period last year, a rise of 50 per cent.

Among the companies that received approvals this year are Cadila Healthcare (Zydus Cadila and its Subsidiaries), Aurobindo Pharma, Lupin, Gland Pharma, and Glenmark.

In comparison, the growth rate in drug approvals for non-Indian companies is lower at 15.27 per cent. From 216 approvals between January and June 2016, non-Indian companies received 249 approvals during the same period this year.

Some of these non-Indian companies are also promoted by Indians. Amneal Pharmaceuticals, founded in New Jersey in 2002 by the Patel family, has grown to be the seventh-largest generic manufacturer in the US by prescription volume. It is led by Chintu and Chirag Patel and has a presence in Australia, Europe and Asia. It received 20 drug approvals between January and June 2017. In India, it has a manufacturing site near Ahmedabad.

Ranjit Kapadia, analyst with Centrum Broking, said, "Indian companies have established a strong base in the US in the generic drugs space. They are competing among themselves for market share," he said.

Analysts also noted that Indian companies had made the most number of drug filings in the US. Moreover, the process of drug approvals has been expedited by the FDA.

Gaurav Jain, vice-president and co-head, corporate sector ratings, ICRA, said, "In mid-2012, the Generic Drug User Fee Amendments (GDUFAs) were implemented to expedite the process of Abbreviated New Drug Applications (ANDAs) approvals by the FDA. In October 2016, the GDUFA entered its cohort-five phase, in which the FDA has to act on 90 per cent of the ANDA submissions within 10 months."

Compared to this in the cohort-four phase of the GDUFA, the FDA had to act on 75 per cent of the ANDAs submitted within 15 months.

This is evident from the growth rate in drug approvals by the FDA so far this year. In 2017, the FDA has approved 390 ANDAs, up from 310 approvals between January and June 2016.

However, ICRA feels that the annual growth trajectory for the Indian pharmaceutical industry is likely to moderate to 7-10 per cent over 2017-18 to 2019-20. The momentum is likely to slow because of pricing pressure on the generic business.

(BUSINESS STANDARD 5TH JULY 2017)

1.43 GOLD TOPS RS 29,000 RS 160 ON FIRM GLOBAL CUES

Gold regained the Rs 29,000-mark by rising Rs 160 to Rs 29,050 per 10 grams at the bullion market on 13th July largely in tandem with a firm global trend and persistent buying by local jewellers.

Silver followed suit and recaptured the Rs 38,000-level on the back of increased offtake by industrial units and coin makers. In a testimony to the Congress on 12th July, Federal Reserve Chairman Janet Yellen signalled a gradual approach to future rate hikes, which pushed down the dollar and boosted the appeal of the precious metal.

Globally, gold rose 0.12 per cent to USD 1,221.50 an ounce in Singapore. Besides, persistent buying by local jewellers at domestic spot market helped the momentum, traders said. In the national capital, gold of 99.9 and 99.5 per cent purity advanced by Rs 160 each to Rs 29,050 and Rs 28,900 per 10 grams.

(FINANCIAL EXPRESS 14TH JULY 2017)

2. FISCAL POLICY

2.30 GOVERNMENT EXEMPTS SEZS FROM INTEGRATED GST

The Government has exempted goods imported by units or developers of Special Economic Zones (SEZs) from Integrated Goods and Services Tax (IGST), the revenue department has said in a notification, reports PTI. An SEZ area is considered to be a foreign territory for trade operations and duties, and is manly set up for promoting exports.

(FINANCIAL EXPRESS 7TH JULY 2017)

2.31 GST: BIGGEST MOVE TO END BLACK MONEY

We commend adoption of the goods and services tax, the biggest tax reform since Independence, to create a seamless common market. Prime Minister Narendra Modi, President Pranab Mukherjee and finance minister Arun Jaitley have done well to acknowledge that political collaboration and the spirit of cooperative federalism ensured the transition to the new tax paradigm. The GST Council, a collective body of the Centre and states, deserves to be lauded for its consensus-driven approach to transact the legal changes needed to adopt GST on July 1.

Rightly, the PM billed this as a good and simple tax that would subsume and eliminate the previous cascade of 17 central and state taxes and 23 cesses, leading to efficiency gains and lowering retail prices. The audit trails the levy creates would curb evasion, widen the tax base and boost collections, both in indirect and direct taxes. The GST network that provides the IT infrastructure for taxpayers to pay tax, file returns and claim refunds, without having to interface with a tax official, except if taken up for audit and scrutiny, is a major innovation.

Sensibly, businesses have been given more time to file returns in the first two months. This will make the transition smooth: companies need time to recast their accounting systems for full compliance. Compliance should be easy, and taxpayers must not be harassed having to deal with two sets of administrative bureaucracies for the tax. Industry's fear that the anti-profiteering clause may be a perverse incentive to routinely suspect the pricing policy of producers is not misplaced. It must have a sunset clause. An institutional mechanism to assess the experience of GST as it rolls out to make swift course correction makes sense.

Ideally, we should have started with low rates, achieved compliance and acquiescence, and pushed rates up gradually. Multiple rates are not inherently inimical to GST but make administration a little complicated. It is still possible to reduce the rates and the number of rates, as government gathers experience implementing the new tax.

(THE ECONOMIC TIMES 3RD JULY 2017)

2.32 71 PENDING FDI PROPOSALS PUT ON FAST TRACK

As many as 71 pending foreign investment proposals, including those of Amazon, Grofers, Urban Ladder, One 97 (which runs Paytm) and Jasper Infotech (Snapdeal), are being fast-tracked.

Many of these had been pending with the recently abolished Foreign Investment Promotion Board since 2015.

The Department of Industrial Policy and Promotion (DIPP) will now distribute them to the relevant ministries and check the status of each pending application at a joint review meeting later this month.

More than 14 are pending with the department of pharmaceuticals and eight with the telecom ministry. DIPP itself has to finalise six single-brand retail applications, include those by Amazon, Grofers, Urban Ladder and Supermarket Grocery among others.

"We would expedite decision on all pending applications now," a senior government official told ET.

Other applications pending since 2015 include those of HSBC Securities and Indus Way Emerging Market Fund. The Foreign Direct Investment (FDI) application of Jupiter Satellite is with the department of space.

The government has been relaxing the rules for FDI in single-brand retail, gradually increasing incentives for the sector. The cumulative foreign investment in retail stood at less than $1billion in March. With a layer of decision making removed after FIPB was scrapped, DIPP has been entrusted with the task of facilitating all FDI applications.

DIPP has also drafted the Standard Operating Procedures (SoP) for processing FDI proposals at all ministries and set strict timelines.

Applications have to be decided in eight to 10 weeks. "The initial indications are that the transition from the previous system will be smooth," said Devraj Singh, executive director, Ernst & Young.

(THE ECONOMIC TIMES 10TH JULY 2017)

3. IMPORT AND EXPORT POLICY

3.30 GEMS & JEWELLERY EXPORTS RISE 11% DURING APRIL-MAY

India's gems and jewellery exports rose by over 11 per cent to $6.78 billion during the first two months of the current fiscal, largely driven by demand in major markets like the US. In April-May last year, the sector's exports aggregated to $6.1 billion, according to the data from Gems and Jewellery Export Promotion Council (GJEPC). The labour intensive gems and jewellery sector contribute about 14 per cent to the country's overall exports.

The rise in shipments was mainly supported by exports of silver jewellery, and gold medallions and coins.

(FINANCIAL EXPRESS 5TH JULY 2017)

4. MISCELLANEOUS

4.56 GST MAY DERAIL OLA, UBER'S CAB-LEASING PROGRAMMES

Uber and Ola drivers associated with both companies cab-leasing programmes will see a hike in the amount of tax paid on leasing under the new GST regime. Tax rates are expected to go up from 14.5 per cent to a range between 29 per cent and 43 per cent, according to company officials at Ola and Uber, besides analysts tracking the space.

The drivers will have to pay an additional fee of approximately Rs 1 lakh annually, with their monthly EMIs going up significantly. Employees associated with the driver experience teams indicate challenges dealing with a further backlash from the drivers in the coming month who have already been protesting against their falling incomes as these companies cut back incentives.

"At Ola Fleet Technologies, we run a leasing programme for tens of thousands of driver-partners who may not be able to afford buying a car of their own. Presently, these driver-partners pay 14.5 per cent VAT. In the proposed GST regime, they will have to bear GST rates of 29 per cent to 43 per cent on the cars already leased, as an outcome of double taxation on existing leases," said Shalabh Seth, CEO of Ola Fleet Technologies, a wholly-owned subsidiary of Ola, in response to ET's queries.

"This will have an adverse impact on their livelihoods, setting them back by over Rs 1,00,000 for the remaining period of the lease, making it unviable to sustain their business," he added. Drivers associated with both the cab-hailing applications leasing programmes pay approximately Rs 825 a day as a part of the rental fee, this amounts to around Rs 25,000 a month. The payment plan works over a three or four-year period. However, post GST, the drivers are likely to see a significant hike in monthly EMIs according to analysts.

BURDEN TO FALL ON DRIVERS'

"This 29 per cent to 43 per cent GST rate range can be explained by understanding that there is a service charge of around 18 per cent plus over 20 per cent vehicle sale tax on the leased vehicles that comes under GST. The burden of paying this will ultimately come upon the drivers. However, it's likely the drivers will try to renegotiate the contract but nullifying the existing contract will be a problem or they will try to return the cars to the company and get back their security deposit of around Rs 30,000," said Jaspal Singh, partner at Valoriser Consultants.

Analysts estimate that approximately 7,000 to 8,000 drivers each are associated with Ola and Uber's cab-leasing programmes. Drivers paying an EMI of Rs 25,000 pre GST will end up paying an EMI of around Rs 35,000 to Rs 40,000 post GST.

According to two Uber executives, the leasing service that the company offers is not a prominent part of the business, however, they expect the drivers to revolt against the high rates later this month. "Leasing is not a business we are looking to strengthen for sure, the overall sentiment in leasing will be all the more low now because of GST rates and the lack of provision for the hike in taxations.

Besides this, the chances of default payments on the leasing drivers end are likely to go up or they will try to return the vehicles," said an Uber executive, speaking to ET on the condition of anonymity.

ET reached out to Praful Shinde, a member of the Action Committee of Maharashtra that spearheaded driver protests against Ola and Uber in Mumbai, Mukkawar Sunil, president of the Telangana Cab Association, Tanveer Pasha, president of the Ola, TaxiForSure and Uber Drivers' Association in Bengaluru and Tamal Arasan, president of the Ola and Uber driver union in Chennai, all of whom claimed they had not heard of the impact of GST rates for drivers who were associated with both companies cab-leasing business or heard from company representatives on the matter.

"There is a lack of transparency prevalent between the driver unions and the cab-hailing apps when it comes to discussing incentives, per km rates and payment hikes and in this case the GST rates. So it is to be seen how the drivers will react when they are made aware about it. We can expect payment defaults or drivers turning away from the leasing business, which will further cause problems for both companies who have taken loans for the vehicles," said an analyst, speaking anonymously to ET.

(THE ECONOMIC TIMES 3RD JULY 2017)

4.57 GROWTH MAY BE HARDER TO COME BY IN JUNE QUARTER

Well-diversified players such as Ultratech CementBSE 1.20 %, Shree CementBSE 3.45 %, and Ambuja Cements are expected to report 4-7 per cent volume growth in the June quarter.

FMCG

The first-quarter results of FMCG companies would provide the first concrete signs of the impact of GST on companies' inventory. Sales growth is likely to be varyingly impacted due to the fall in inventory in the supply chain. Market leader HUL is likely to do well. Commentary on how the GST rollout and price cuts are impacting sales will be critical.

INFORMATION TECHNOLOGY (IT)

Barring the benefit of a stronger pound and euro against the dollar, Indian IT exporters are likely to report pressure on profitability for the June 2017 quarter due to wage increases and visa cost. A stronger rupee against the dollar will also affect performance. HCL Technologies BSE 2.36 % is likely to report better dollar-denominated revenue growth compared with its peers.

METALS

Overall, metal companies are expected to report a decent quarter higher earnings year-on-year due to a sharp price rise across metals. Tata Steel is expected to deliver better numbers due to ramp up of capacity in its Indian operations. For non-ferrous metal producers, the June-quarter numbers may be marginally weaker than the previous quarter's. Coal India's performance is expected to be weak due to lower price realisation and higher wages.

PHARMA

As the US market continues to be competitive for pharma companies, their domestic performance in the June quarter would be closely watched for the possible impact of GST on inventory. Their US market performance is likely to remain subdued in the absence of any exclusivity sales for companies.Though CadilaBSE 0.36 % Pharma and CiplaBSE 0.62 % could have an improved performance in the US.

POWER

Thermal power generation was higher in the June quarter compared with the year-ago levels. This may help NTPC BSE 0.66 % to report marginally better numbers. Tata Power BSE 2.33 %, which imports coal to fire its plants, will get the benefit of a stronger rupee as its cost of coal will be lower for the quarter.

TELECOM

Telecom companies are likely to report weak numbers for yet another quarter. But, deceleration in the rate of decline in subscriber parameters such as realisation and average revenue per user cannot be ruled out. This is owing to the introduction of paid services by Reliance Jio during the quarter. While data volumes are expected to show buoyancy, profitability will remain under pressure.

(THE ECONOMIC TIMES 7TH JULY 2017)

4.58 CONSOLIDATED CREDIT GROWTH EASES TO 9.4%

loans, bonds and commercial paper — grew 9.4% year-on-year (y-o-y) between June 30, 2016 and June 2017. In the corresponding period between June 30, 2016 and June, 30, 2015, the growth had been higher at 11%. With banks increasingly participating in the bond markets, the share of bonds in total credit is rising. Meanwhile, the growth in non-food credit in the year to June 23, 2017 was slightly lower at 6.7% y-o-y. Outstanding loans (non-food credit) from banks to industry and individuals stood at Rs 76.06 lakh crore at the end of June 23, data from the Reserve Bank of India (RBI) showed.

The net corporate bonds outstanding, as at the end of June, was Rs 24.81 lakh crore, up 20% from Rs 20.63 lakh crore in June 2016, as per the latest data released by Sebi. Data from the RBI showed that the net outstanding on commercial papers stood at Rs 3.88 lakh crore as of June 15, little changed from Rs 3.83 lakh crore in the previous year. Outstanding non-food bank credit grew 6.7% y-o-y to Rs 76.06 lakh crore as on June 23.

In a recent statement, ratings agency ICRA said that between FY11 and FY17, the Indian debt capital markets grew at a Compounded Annual Growth Rate (CAGR) of 17% in terms of issuance volumes and 18% in terms of outstanding volumes.

Bankers and sector analysts have in recent days made a case for measuring the credit growth in terms of outstanding on loans as well as bonds as better-rated corporates are borrowing increasingly from the money markets.

In March, HDFC Bank deputy managing director Paresh Sukthankar had told FE, "A large amount of shorter-end commercial paper borrowers are all banks. So effectively, when you are looking at credit growth, you should go back to what we called 'customer assets', which we used to look at before we went back to loans and advances because it had died a sort of natural death."

Speaking after State Bank of India's (SBI) December quarter results, chairman Arundhati Bhattacharya had said, "There is movement of the better-rated corporates from the loan book into the money markets and into the bond markets and, therefore, these numbers give a flavour where our money is getting invested."

FACT SHEET

	2015	2016	2017
Net corporate bonds outstanding (as of June)	17,88,921	20,63,314	24,81,252
CP outstanding (as of June 15)	3,12,692	3,83,171	3,88,519
Bonds+CPs	21,01,613	24,46,485	28,69,771
Outstanding non-food credit (as of June)	65,19,189	71,27,578	76,05,656
Total credit outstanding	86,20,802	95,74,063	104,75,427
Change (%)	12.57	11.06	9.41

All figures in ₹ crore, except percentages   Source: RBI, Sebi

(FINANCIAL EXPRESS 11TH JULY 2017)

4.59 CPI INFLATION FALLS TO RECORD LEVELS, IIP AT THREE-MONTH LOW

Growth in industrial production fell to a three-month low in May while Consumer Price Index (CPI)-based inflation declined below a stipulated floor of 2 per cent in June, providing the Reserve Bank of India leeway to cut the policy interest rate in August. Pulled down by capital goods, consumer durables and manufacturing, and mining, the index of industrial production expanded 1.7 per cent in May, lower than the revised 2.8 per cent rate in April. CPI inflation was down to a record low of 1.5 per cent in June from 2.2 per cent in the previous month.

Food items continued to witness deflation amid farmers distress in various parts of the country. The data came when the kharif sowing season is progressing smoothly with even pulses showing a rise in acreage.

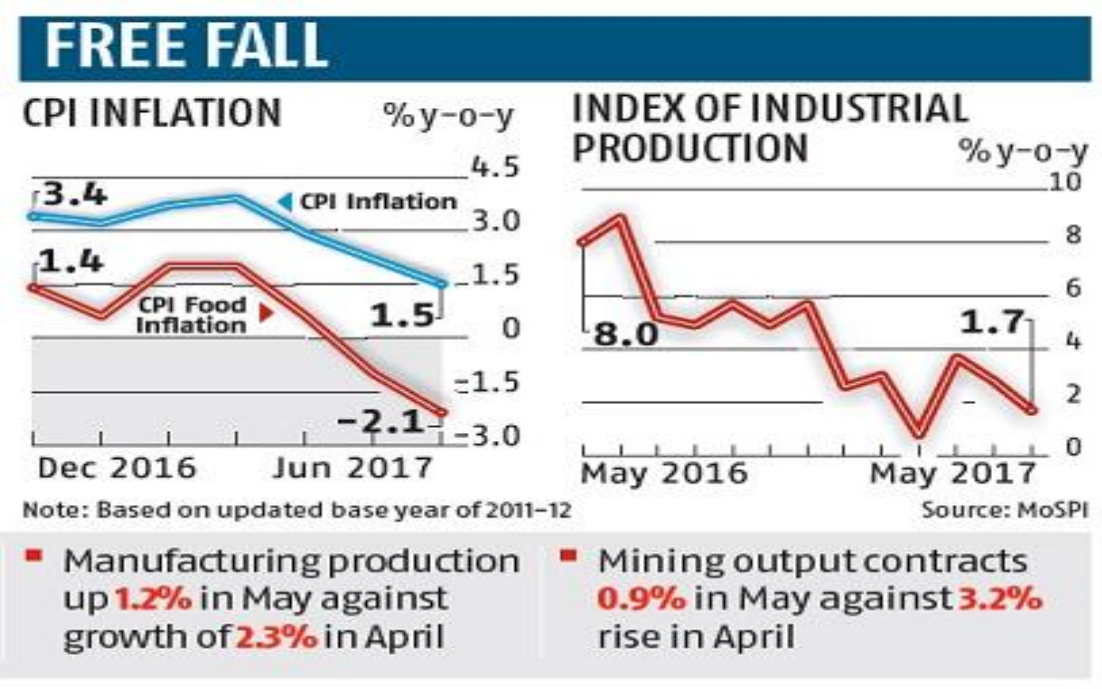
Economists expect CPI inflation to remain lower than the mandated 2 per cent in July.

“Clearly, this low number and what it implies about underlying price pressures, as well as the latest IIP data just released, is something that all policy makers will reflect upon very carefully,” said Arvind Subramanian, chief economic adviser in the finance ministry. He said CPI inflation reflected consolidation of macro-economic stability. “The last time we saw such inflation, according to a slightly different CPI (IW), was in 1999, and before that in 1978,” he said.

The CEA said the forthcoming Economic Survey, to be authored by him, will fully elaborate a paradigm shift in the inflationary process to low levels. “This low, heartening number is consistent with our analysis for some time now,” he said. The shift of inflation to low levels has been missed by all “reflected in the large, one-sided, and systematic inflation forecast errors that have been made”, the chief economic advisor added.

In the past, Subramanian had criticised RBI for making errors in inflation forecasting and not cutting the policy rate.

ICRA’s principal economist Aditi Nayar felt the balance was tilted towards a 25 basis point cut in the repo rate. “Some members may choose to focus on the expected rise in CPI inflation post August rather than the lower-than-expected prints over the last several months,” she said.



(BUSINESS STANDARD 13TH JULY 2017)