

# Growth to slow sharply on weaker consumption

■ Economists trim forecasts, some predict sub-6% in FY17

fe Bureau

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WITH consumption spends in rural and urban India stifled by the acute scarcity of cash, the economy is set to clock sharply lower levels of growth in the current and coming quarters. While the initial days of demonetisation saw economists merely pruning their growth estimates, the cuts could get bigger.

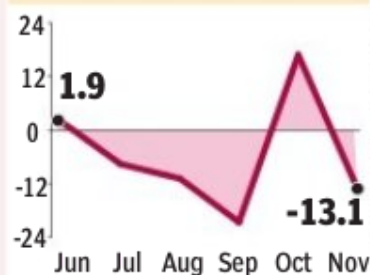
Nomura, for instance, believes there is a downside risk to its Q1 GDP growth projection of 6.9% y-o-y. "Near-term growth may fall much more than expected," economists at the brokerage wrote. They alluded to proprietary indicators which had slumped to their lowest level since the series started in 1996 and were consistent with a below 6% GDP growth.

While sales have decelerated across markets, given the larger volume of cash transactions, the hinterland has been hurt far more

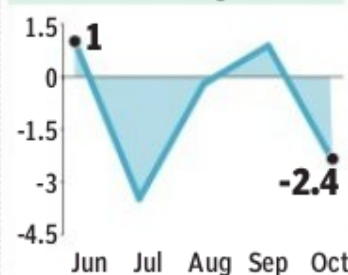
## NO RECOVERY IN SIGHT

(y-o-y, %), 2016

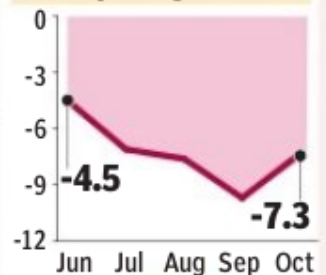
### MHCV sales



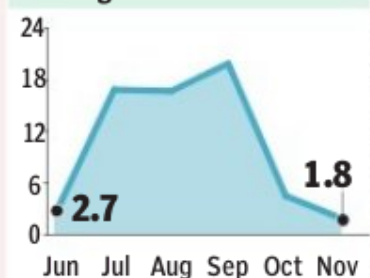
### IIP manufacturing



### Railways freight traffic



### Passenger vehicle sales



### Two-wheeler sales



than urban areas.

Economists at Bank of America Merrill Lynch (BofAML) estimate every month of disruption due to demonetisation costs between 0.3-0.5% of GDP. Consequently, they are now looking at a FY17 GDP growth

target of just 6.9% rather than the 7.7%. At a time when consumption was driving the economy in the absence of investments, the hit to sales of big-ticket items—property, jewellery, cars and other durables—will deal a blow to the economy.

Credit Suisse has reworked its forecast for GDP growth in FY17 to 6.9% from a more robust 7.8% since it feels consumption will grow at a much slower 6.5%, way below the 8.2% anticipated before demonetisation.

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## From the front page

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“Businesses, especially small and medium-sized enterprises, and sectors like automobiles and non-bank finance companies will probably see temporary disruptions as well,” the brokerage wrote.

High frequency indicators show the economy has been sluggish (see charts) — the contraction in railway freight together with slowing sales of commercial vehicles is a sign of weak demand. While consumer goods sales had started picking up after the raises for government employees, demonetisation will put the brakes on consumption for the next few months. In the meanwhile, investment continues to be anaemic; gross fixed capital formation (GFCF) contracted for the third straight quarter in Q2FY17 after increasing by sub-1% in Q3FY16.

Consequently, corporate earnings could continue to

disappoint; BofA ML estimates a downside risk of anywhere between 1-6% to its FY17 earnings estimates. To be sure, the recovery reflected in the Q2FY17 results may seem impressive, analysts point out these came off a low base. More pertinently, underlying trends — volumes for instance — have been subdued. BofA points out that Q2FY17 aggregate numbers are somewhat misleading because of the 70 sub-sectors that it tracks, the fewest number at 61% have delivered a growth in earnings before interest and tax (ebit).

“Demonetisation plus GST mean earnings will be volatile for the next 3-4 quarters,” the brokerage wrote recently, adding further downgrades were possible. “Demonetisation measures will not help,” Kotak Institutional Equities (KIE) wrote in a recent report. The brokerage, nevertheless, expects earnings to grow 13% and 20% in FY17 and FY18, respectively. That’s on the back of profits in sectors such as PSU banks, metals & mining and pharmaceuticals getting normalised.

The brokerage cautions that there are potential risks to earnings in sectors such as cement, consumer discretionary and industrials on the back of weaker-than-expected demand and profitability. “Weakness in demand will also hurt profitability disproportionately,” KIE noted.

### Road projects

needed liquidity for the company. “Being an EPC player, our working capital requirements are high and the payments will ease cash flows,” Sapre said.

Apart from HCC, several other concessionaires stand to gain. The arbitration tribunal is yet to decide on the cases of Gammon India, Gammon Infrastructure, IVRCL and Ramky Infrastructure. According to Bloomberg, the combined total debt of these five players stood at about ₹35,400 crore at the end of March 31, 2016. Other companies who have filed claims include IL&FS Engineering and Construction for over ₹150 crore and AFCONS for ₹140 crore.

In August, the Cabinet approved releasing of 75% of the amounts locked up in litigation against margin-free guarantee for cases where awards have been given but have been contested. It was also decided that all arbitration cases will be resolved within a year.

The government’s hybrid annuity scheme, however, has not got off to a great start. Alok Deora, analyst, IIFL Wealth, observes that since the model is a new one and builders are financially stressed, it has been a challenge to achieve financial closure. “With just 2,300-odd km awarded so far achieving the target in just three months looks difficult because acquiring 90% of the land before the project is handed over is not easy. Also companies who do receive their claims will first fix their balance sheets,” Deora said.

achieve their targets, though Punjab, Haryana, and Rajasthan came closer to their targets.

Although the UDAY portal also gives the progress made by the states as per fourteen parameters including feeder metering for both rural and urban areas, smart metering, feeder segregation, access to electricity to unconnected households among others, the improvements in these areas reflect on the broader yardstick of cost-revenue gap and AT&C losses.

The Centre launched UDAY as discoms’ accumulated debt ballooned to ₹4.5 lakh crore by September 2015. The debt has not only put the lenders to discoms at risk but also banks which gave loans to newly commissioned or under-construction projects.

States signing up for UDAY issued non-SLR bonds worth ₹1 lakh crore in fiscal 2016 to take over 50% of discoms’ debt. An additional

#### PROJECT 1

The overall project at Kalanagar well as a maze of flyovers with bridges. In phase 1, two flyovers from Bandra-Worli Sea Link to will be constructed and supported.

■ The other flyovers — one from Highway and another from D Highway — will be implemented.

#### PROJECT 2

Another important project is the BKC-EEH (Eastern

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**FOR INVITING e-TENDER**  
**No. 08/2016-17**  
 BSNL Electrical Division, 4<sup>th</sup> floor CTO Bldg, CTO  
 Bldg No.-0712-2530443/2530440) invites  
 bids for Sanchar Nigam Limited for the works of  
 supply of Air-Conditioning units at various T. E  
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