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Economic Trends

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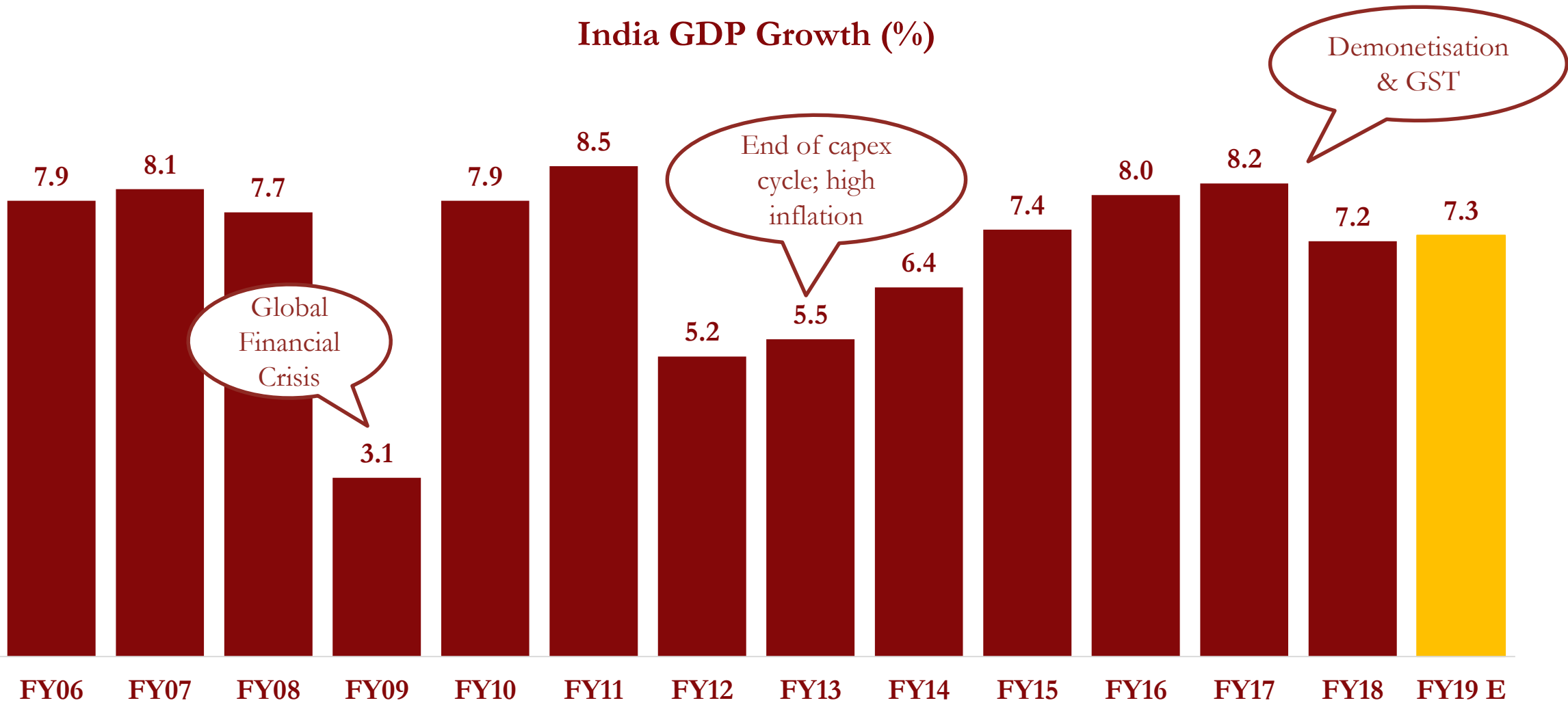
7 March 2019

India's Recent Growth



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India GDP Growth (%)

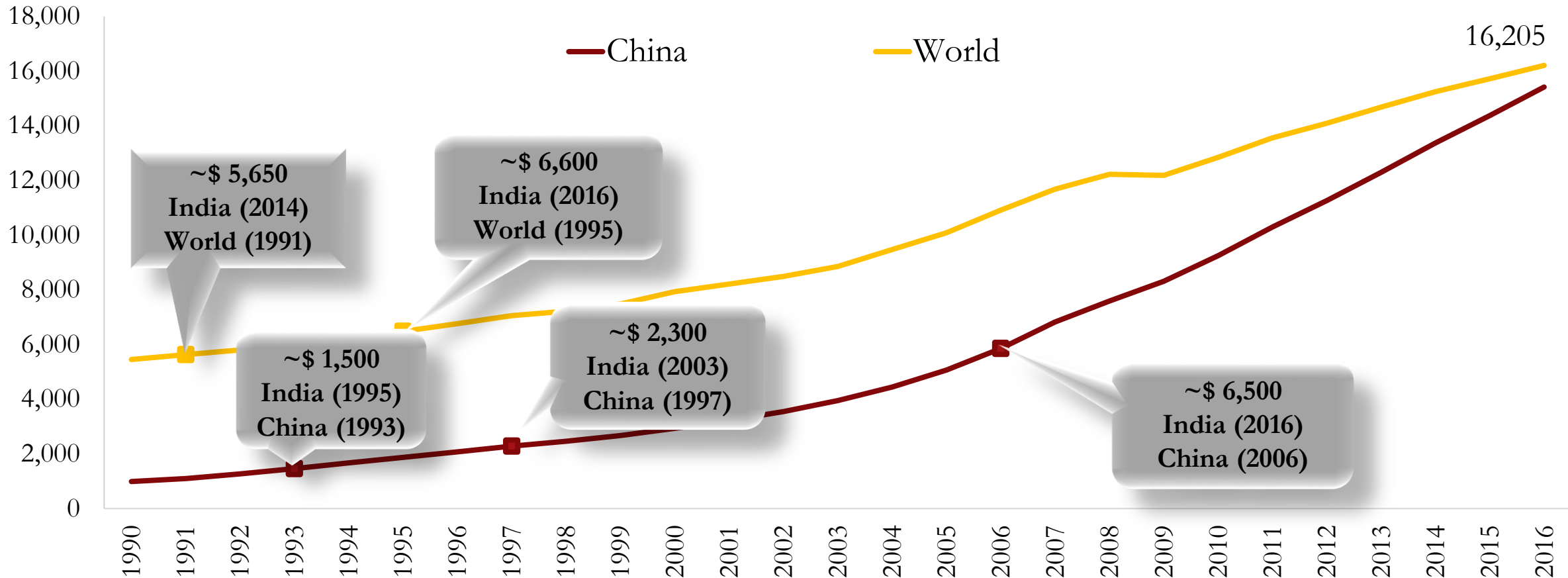


Fastest growing major economy, but still a long way to go



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GDP Per Capita, PPP (US \$)



- ❑ India is currently ~ a decade behind China and ~3 decades behind World average
- ❑ China's catch-up was particularly pronounced in the last decade. Can India do it in the next decade?

Some Key Features of China's Growth



Major Exports

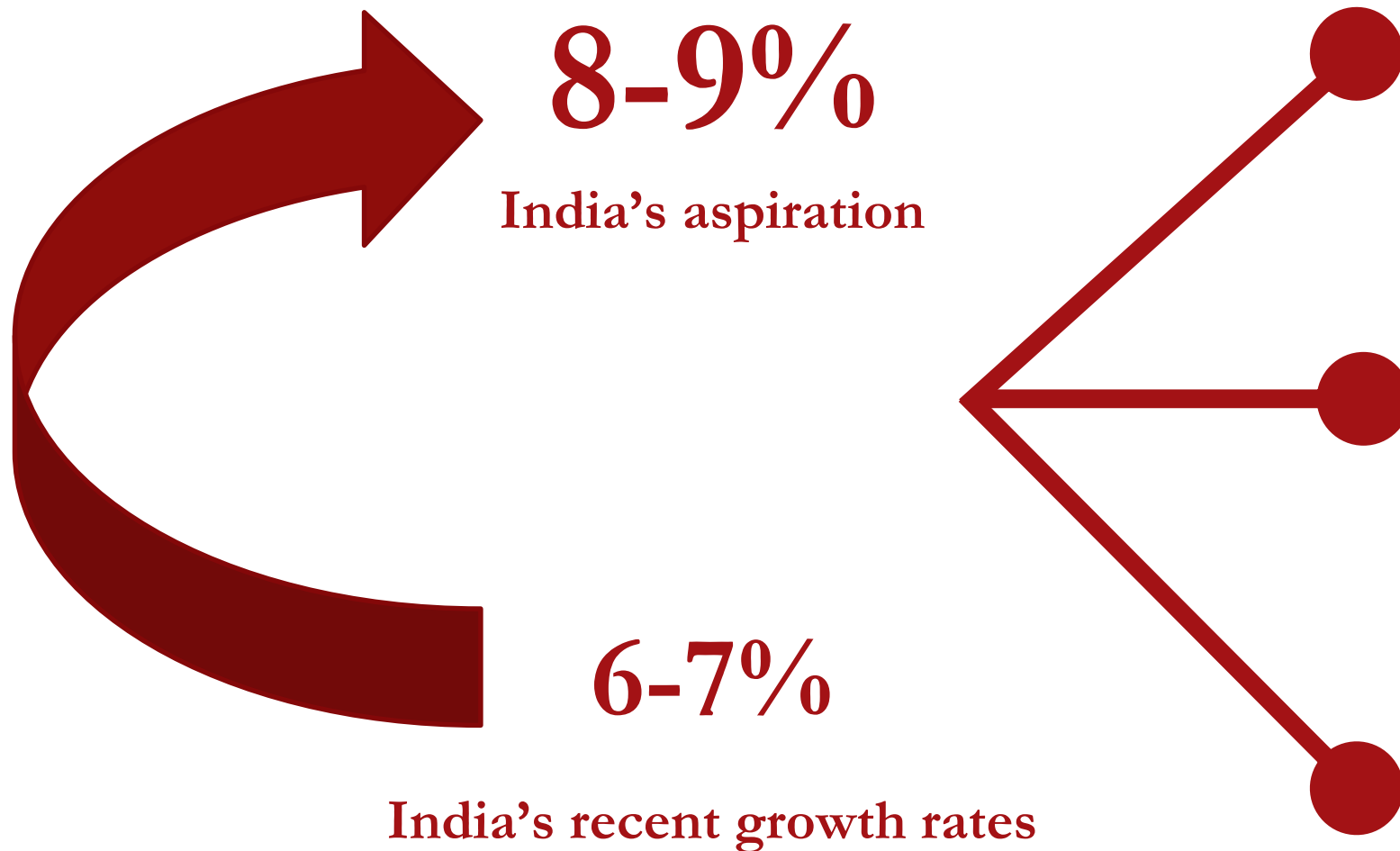
China	India
Computers	Refined Petroleum
Telecom Equipment	Diamonds
Telephones	Jewellery
Integrated Circuits	Packaged Medicines
Light Fixtures	Automobiles

While India exports lightly processed petrochemicals and jewellery, **China focuses on high value consumer electronics**

- **GDP** – China's GDP is 5.1X India's GDP
- **Exports** – 7.2 X India's exports
- **Electricity** -5.3 X India's electricity generation
- **Automobiles** –
 - Passenger Vehicles – 6.7X India's annual PV sales
 - Commercial Vehicles – 4.4X India's annual CV sales
- **Internet penetration** – 1.67X times penetration in India
- **Research** – Patents filed – 29.8X times India's filings in 2016
- **FDI:** in China mainly into manufacturing; in India mainly into services & construction
- Unlike China, India is not integrated into regional value chains m

The big lift ... will it happen?

Near-double digit growth rates have happened in smaller, export-driven economies or controlled economies;
Can India achieve it?



Structural Drivers

- Demography
- Urbanisation
- Catch-up of infrastructure

Cyclicals

- Global backdrop
- Return of private capex

Policies

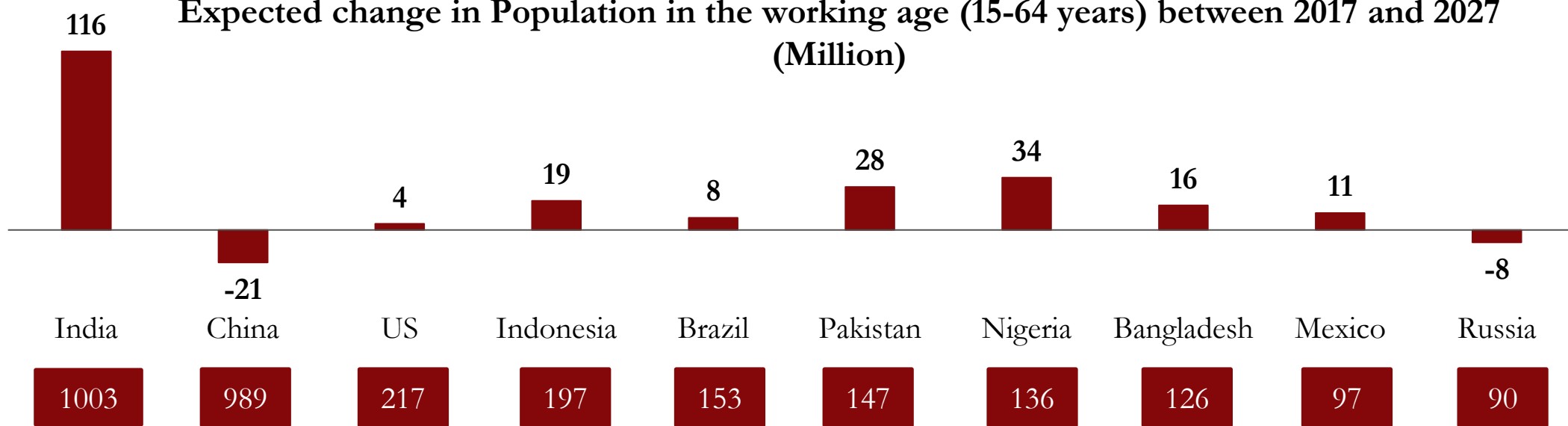
- Investor-friendly policies
- NPA resolution
- Formalisation of economy

Demographic Dividend



- India's median age is 28 years (vs. 37+ in China and US, 45+ in Japan and Europe)
- By 2025, India's working age population will overtake China's and cross 1 bn mark in 2027
- India is projected to account for one-fourth of global incremental workforce between 2017 and 2027

Expected change in Population in the working age (15-64 years) between 2017 and 2027 (Million)

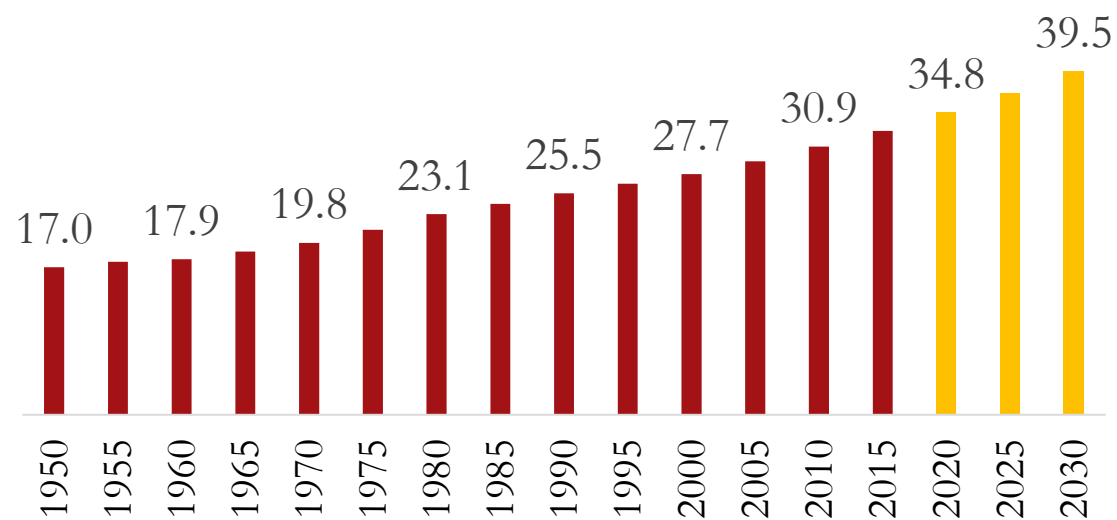


Working Age Population (2027, Mn)

1003	989	217	197	153	147	136	126	97	90
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40% of Indians will live in cities by 2030

% of Population residing in Urban Areas



Source: World Urbanisation Prospects

- ❑ Currently China has 750+ mn urban dwellers vs. 400+ mn in India
- ❑ Projections suggest that urban Indians will double in size by 2050 (i.e. another 400 mn) while China will add ~290 mn to its urban population

Continued pace of urbanisation will drive consumption, housing, greater penetration of commodities

Infrastructure – A challenge and an opportunity



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- ❑ India's infrastructure investment need has been estimated at between \$0.8-1.0 trillion over the next five years
- ❑ Govt. has announced a massive roads building programme (83,677 km at nearly \$110 bn) over next five years
- ❑ Over 200 million housing units being built under Govt. programmes for “a roof over every head”
- ❑ 24x7 Power for All (24x7 PFA) - a Joint Initiative of Government of India (GoI) and State Governments

Growth push during implementation phase

Better connectivity and logistic efficiency

Improved living standards

In recent years, rising tax-GDP ratio and comfortable financing conditions for PSUs supported govt.-driven infra-push

Cyclicals: Is the global backdrop supportive?



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	2017	2018	2019	2020	2021	2022	2023
World	3.8	3.7	3.5	3.6	3.6	3.6	3.6
Advanced economies	2.4	2.3	2.0	1.7	1.7	1.5	1.5
European Union	2.4	1.8	1.6	1.7	1.7	1.7	1.6
Emerging market and developing econ.	4.7	4.6	4.5	4.9	4.9	4.8	4.8
ASEAN-5	5.3	5.2	5.1	5.2	5.2	5.3	5.3
China	6.9	6.6	6.2	6.2	6.0	5.8	5.6
Germany	2.5	1.5	1.3	1.6	1.5	1.3	1.2
India (FY)	6.7	7.3	7.5	7.7	7.7	7.7	7.7
United Kingdom	1.8	1.4	1.5	1.6	1.6	1.6	1.6
United States	2.2	2.9	2.5	1.8	1.7	1.5	1.4
Japan (FY)	1.9	0.9	1.1	0.5	0.7	0.5	0.5

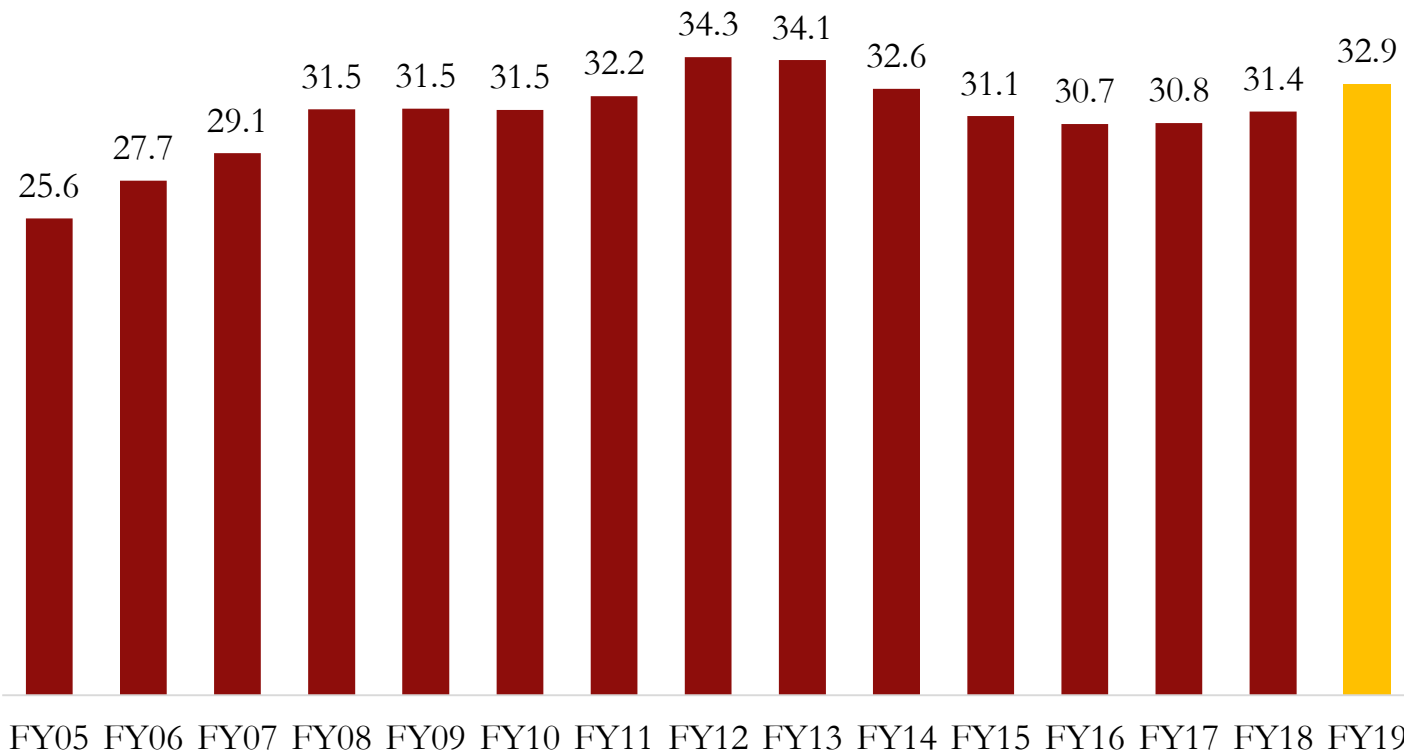
Downside risks

Source: IMF

Note - % YoY

Pvt. Capex revival – another necessary piece!

India GFCF (% of GDP)



- Capex has been depressed in recent years due to –
- Low capacity utilisation
 - Difficulties in EC, land acquisition
 - Leveraged balance sheets of corporates
 - Stress on banking sector's assets

Corporate sector deleveraging already underway; investment appetite could be back in next 4-6 quarters as capacity utilisation picks up

Greater formalization of the Economy

Goods and Services
Tax (GST)

JanDhan – Aadhaar -
Mobile (JAM) Trinity

Demonetization

Real Estate
Regulatory Act
(RERA)

Tackling of Vexing Issues

UDAY Scheme
(for sustainability of power
distribution sector)

Insolvency and Bankruptcy
Code

Recapitalization of Public
Sector Banks

Medium-term Outlook on the Economy



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- Growth in the range of 7.5% to 8%
- Moderate inflation – around 4% to 4.5%
- Interest rates will be under pressure due to fiscal worries – will be mitigated partially if the tax-GDP ratio improves on greater formalisation of the economy
- Average depreciation of INR by ~2% p.a.; There will be phases of appreciation in between

However, a near-term churn in financial markets a distinct possibility



Near term Outlook



Macro Risks tilted to the downside



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Risks to the Global Macro Economy



**Global Trade
War**



**Uncertainty
around Oil**



**Geopolitical
Tensions**



**Emerging Markets
Contagion**

Risks to the Indian Macro Economy



**Tightening Financial
Conditions**



**Shortfall in GST
collection**



**Widening Current
Account Deficit**

Global Business Cycle: Slowing Growth

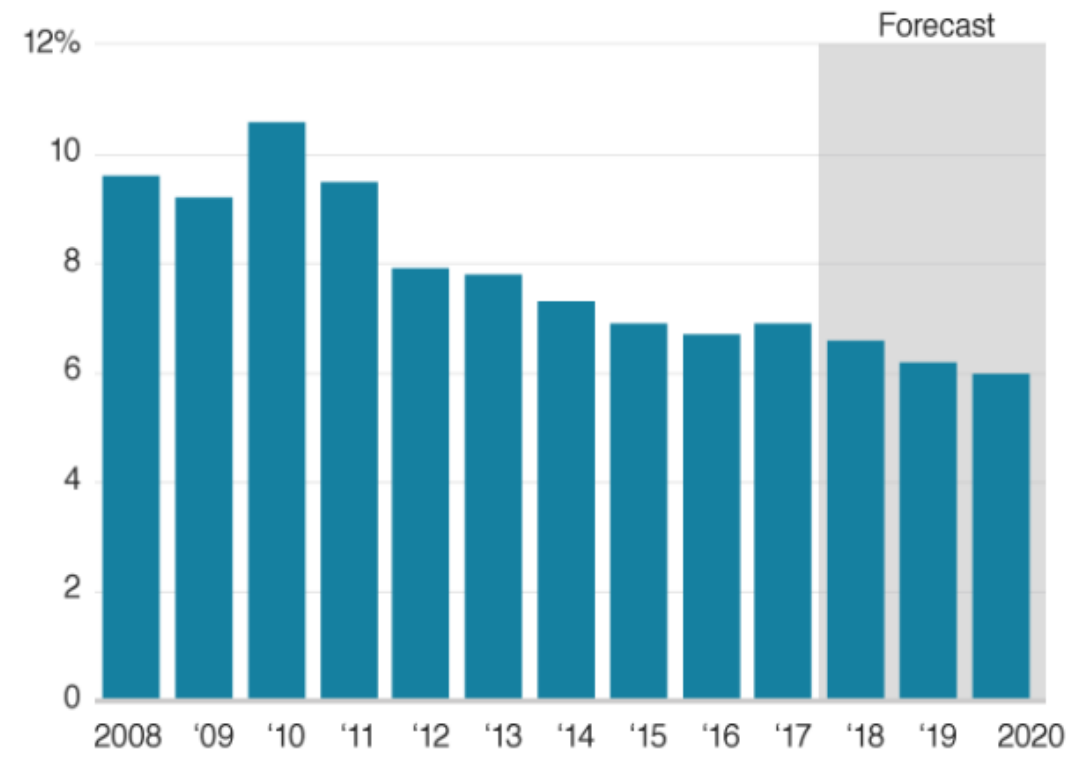


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- Downward revisions of growth forecasts
- Key headwinds to growth: US-China trade war and tighter financial conditions

Chinese economic growth has been slowing

China GDP



Source: IMF, DBF



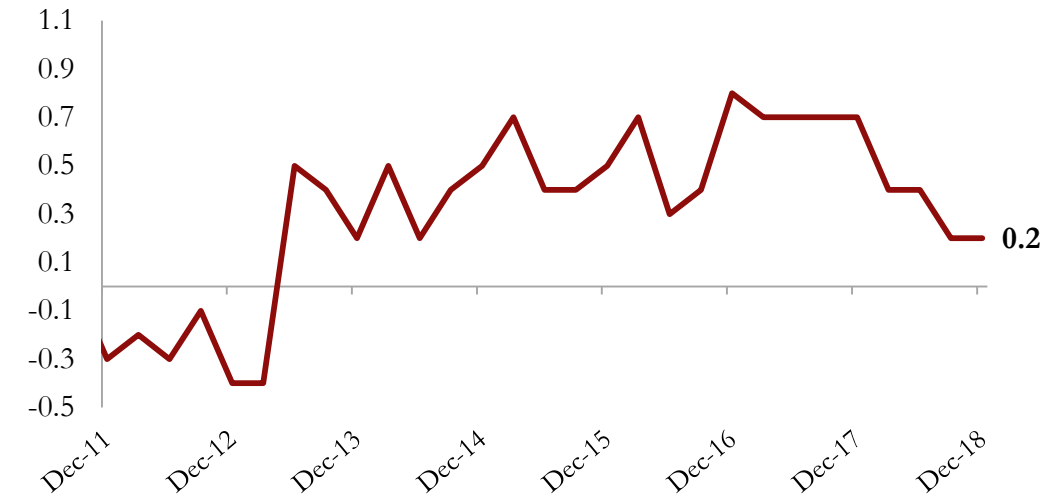
IMF Revised Growth Forecasts (% yoy)

	2018 E	2019 F	2020 F
US	2.9	2.5	1.8
Euro area	1.8	1.6	1.7
China	6.6	6.2	6.2
India	7.3	7.5	7.7
World Output	3.7	3.5	3.6

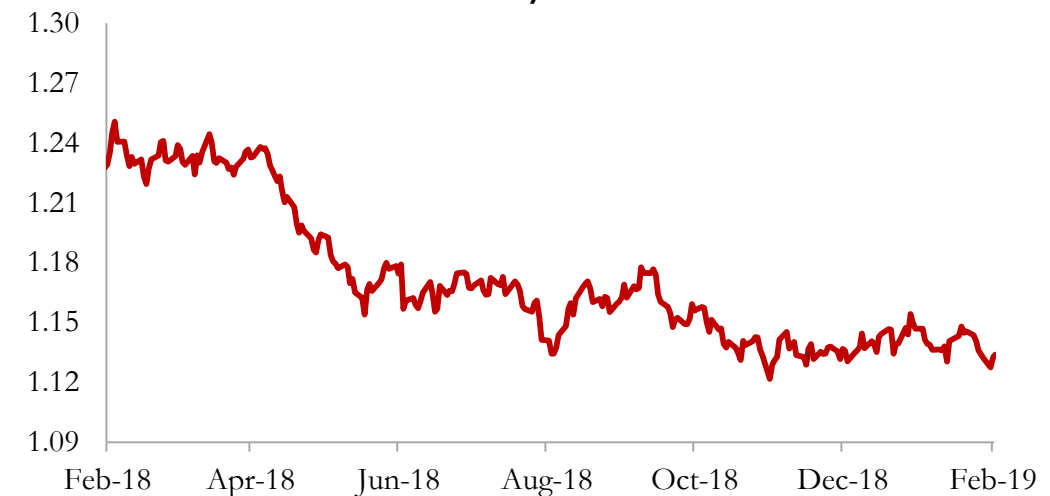
Eurozone: Growing concerns of growth and Brexit

- **Italy went into recession in Q4 '18** (3rd time in 10 years)- a negative sign for the new populist government.
- UK economic data remained weak with no agreement on the Brexit deal
- Germany's growth was impacted by disruptions in the car industry due to new emission standards and insurance requirements.
- **In the Jan 2019 IMF projections, maximum downward revision was for the Euro area vs the Oct 2018 forecasts.**

Eurozone GDP (% QoQ)

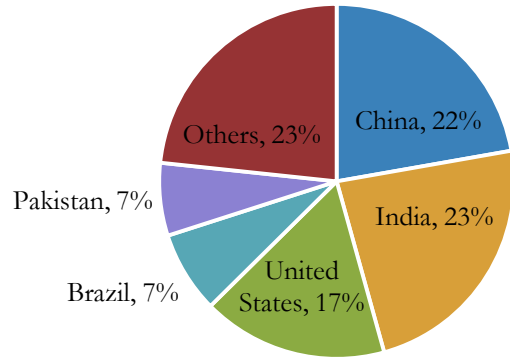


EUR/USD



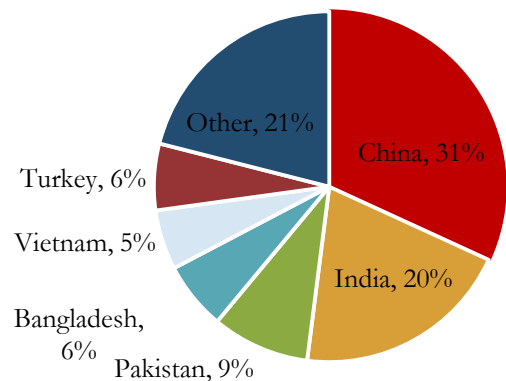
Significance of Cotton for India

Cotton: World Production (2017-18)



- largest producer and second largest consumer in the world.
- third largest exporter of cotton globally
- largest acreage for cotton at 12 mn hectares of global 33 mn hectares
- sustains livelihood of estimated 5.8 mn cotton farmers

Cotton: World Consumption (2017-18)



- and 40-50 mn people engaged in activities like cotton processing and trade
- India's textile mix tilted towards cotton with consumption mix of 55:45 in favour of cotton vis a vis man-made fibre. This is in contrast to global consumption pattern of 30:70 in favour of MMF.

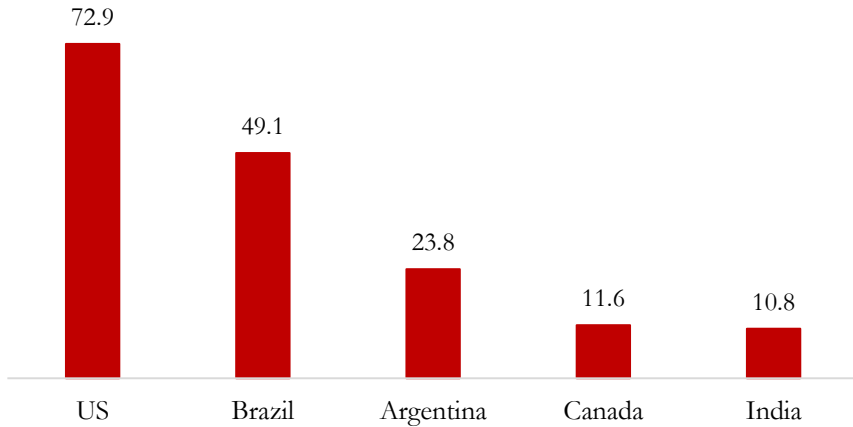
Challenges for Cotton Sector in India



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- **Low cotton Productivity:** Cotton yield in India stagnated at 500 kg/hectare as against global average of 779 kg/ hectare. R&D of seeds and improvement in irrigation facilities required for improving yields
- **Rising cost of cultivation:** Cost of cultivation escalated at 12.8% per annum during 2005-2015. Largest increase in cost due to labour cost as cotton cultivation is labour intensive.
- **Farmers Income suffering:** Net income of farmers suffering due to stagnant yields, volatile prices and rising cost of cultivation.
- **Infestation of GM variety:** Pink bollworm infestation plaguing cotton farmers even though GM seeds should be pest resistant. Cotton yield in 2017-18, 9% lower due to the infestation.
- **Price volatility:** Cotton price volatility due to weather related concerns aggravated by speculative market activities and China's inventory management.
- **Consumption trend in favour of MMF globally:** Need to focus on R&D to increase adaptability of cotton to latest fashion and utility of consumers.

Area under GM crops (mn hectares, Yr: 2016)



- Monsanto introduced Bt Cotton called BG-1 in 2002 and BG-2 in 2006
- 95% cotton in India genetically modified by 2014
- India fifth largest area under GM crop cultivation
- Increase in area of BT cotton have not helped improve yields
- Last three years problem of pink bollworm infestation. Other 14 Bt cotton-growing countries not facing infestation issue.
- Farmers complaining about spending more on pesticides and high cost Bt Seeds

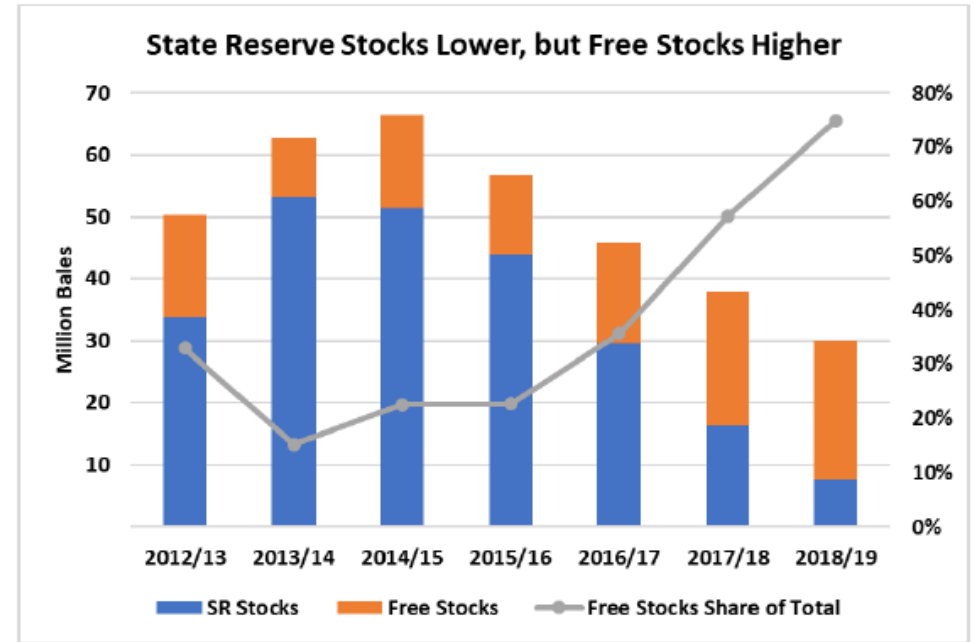
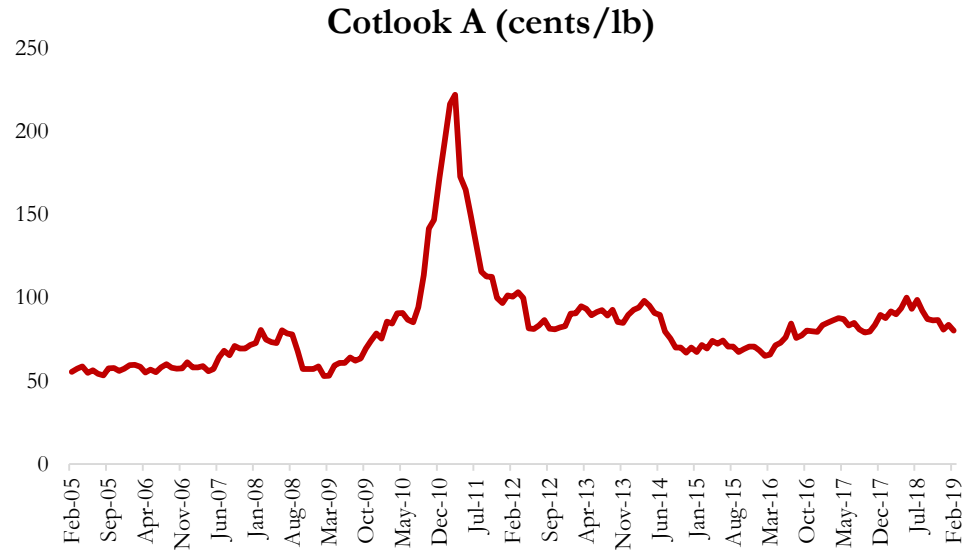
Following reasons attributed to infestation of Bt cotton in India:

- ✓ Usage of unapproved Bt Cotton seeds. Usage of long-duration hybrids as against open-pollinated varieties used by other countries. Indian seed companies prefer hybrid seeds because they cant be re-planted by the farmers.
- ✓ Indian farmers grow crop longer so that they can produce enough cotton but this allows pest to thrive and evolve resistance.
- ✓ Farmers avoiding trap cropping (20% sowing area for non-bt cotton) required to prevent bollworm from developing resistance to Bt cotton.

China Reserve Stocks critical factor in global story

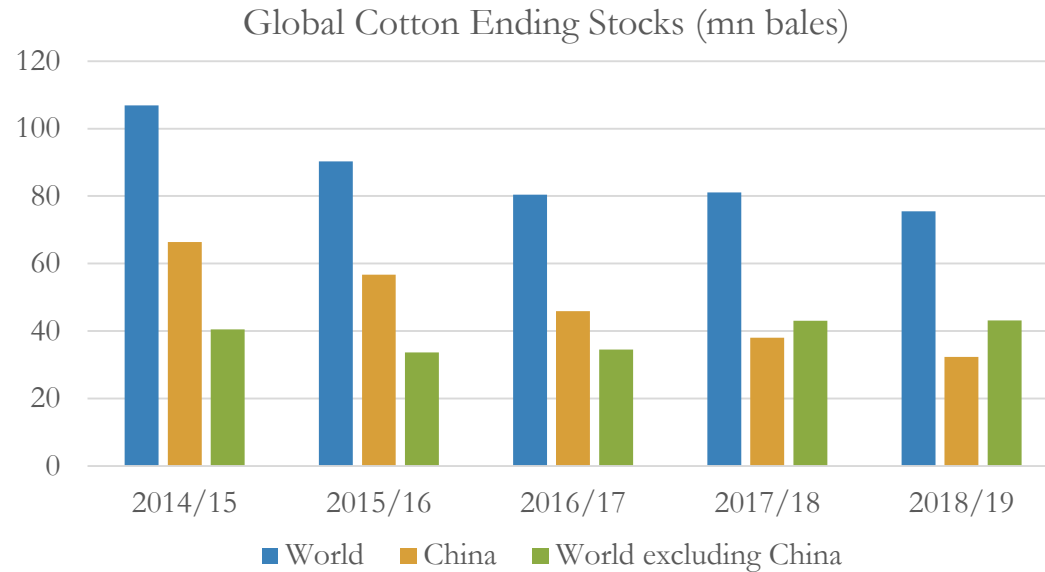


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- China started building state reserve for cotton in 2011 for supply security. They set a price floor and when prices fell below the floor they would step in to buy.
- Attractive price floor by China, resulted in sharp increase in cotton production and subsequent fall in prices. By 2014/15 China reserves rose to 65 mn bales more than half the world cotton production.
- 2015 multi-year destocking started. By 2018/19, China's stock est at 32 mn bales.

Global Cotton Stocks falling



- For 2018/19, global ending stock est at 75.5 mn bales (lower than 2017/18), but stock to use ratio still on higher side.
- Market sentiments dampened by US-China trade war.
- Brazil appears to be benefitting from trade war, with exports to China increasing.
- For 2018/19, higher production in China, Brazil and Australia offsetting lower production in Turkey and India.
- Global consumption slightly lower in 2018/19 led by lower demand in India and China.



India Textile Sector

Textile Industry in India



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4% share of
GDP

13% share of
exports

14% share of
Industrial
Production

2nd largest
employer, 105
mn people

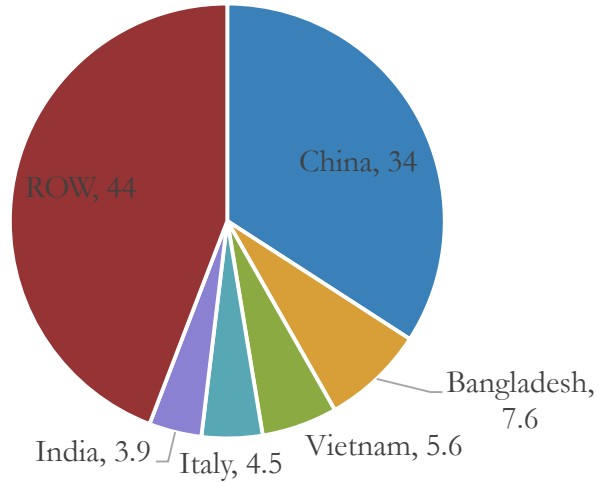
- India has presence in the entire value chain from fibre, yarn, fabric to garments
- India has the advantage of abundant and low cost labour.
- Textile exports from India around US\$ 36 bn.
- Exports growth almost flat in FY17 and FY18, with marginal improvement in FY19.
- India's main export markets are EU, US and Canada
- huge unrealized market potential with per capita consumption of all fibre less than 50% of global per capital consumption

India's position in global textile industry



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% share in Global Apparel Exports



India's Position in global textile exports

Select items	% share in World Exports	Rank
Cotton based textile	12.2	2
Manmade filament based textile	4.3	6
Manmade staple fibre based textile	5.7	3
Knitted or crocheted fabric	0.8	14
Knitted apparel and accessories	3.6	6
Woven apparel and accessories	4.1	5

- India is the largest producer of cotton and second largest producer of MMF
- India's share in global textile exports 5% compared to China's 38%
- High share in global export market in upstream products, like fibre and yarn (14% each). Even in Fibre, cotton specifically, has a high share of 27%.
- However, India has a low share in value added downstream segments. India's export of Apparel has a share of 3.9% and Fabrics have a share of 3.5% in world trade.

Issues facing India's Textile Industry



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- **Small scale and unorganized players** dominate the industry. SMEs make up about 80% of industry
- **Infrastructure bottleneck** in terms of road/port connectivity leads to long lead time and delays in meeting delivery schedules
- **Outdated Technology:** Around 60% of the spindles used in India are more than 25 years old. Technology upgradation schemes will help the Indian players increase their productivity and competitiveness.
- **Inflexible labour laws** an obstacle for textile industry. There is also need for **adequate skilling** to take advantage of abundant labour availability
- **Implementation of GST** a challenge for industry given the large unorganised segment in the industry
- **Termination of export subsidies**, required by WTO norm. MEIS and EPCG schemes to be affected
- **Differential tax treatment** of Cotton vis a vis MMF. This prevents India from expanding share in MMF exports



Thank You
