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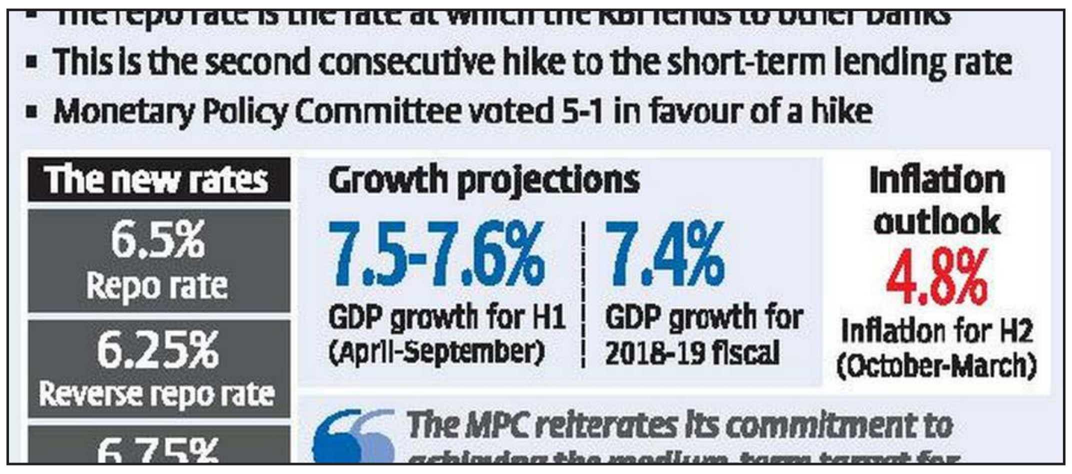
Ahmedabad 3-08-2018

RBI strikes another blow in inflation fight



The Reserve Bank of India on Wednesday hiked the repo rate by 25 basis points to rein in inflation pressures that could arise from volatile crude oil prices, a revision in the minimum support price of kharif crops, and hardening input costs reported by manufacturing and services firms.

Members of the Monetary Policy Committee (MPC) voted 5-1 in favour of a hike.

This is the second straight 25-bps hike in the repo rate even as the central bank persisted with its neutral policy stance. In June 2018, the MPC had unanimously voted to increase the rate.

With the latest increase, which market experts see as a 'front-loading' of the rate hike cycle, the repo rate stands at 6.50 per cent against 6.25 per cent earlier. One basis point (bp) equals one-hundredth of a percentage point.

Banks are now expected to further nudge up their deposit and lending rates.

RBI Governor Urjit Patel said: "On the domestic front, the MPC took note of the rise in retail or CPI (consumer price index) inflation for the third consecutive month in June. Even though food inflation remained muted, other components recorded moderate to sharp price increases." He observed that the uncertainty around domestic inflation needed to be carefully monitored in the coming months.

Global risks

Rising trade protectionism, geo-political tension and elevated oil prices pose a grave risk to near- and long-term global growth prospects by adversely impacting investment, disrupting global supply-chains and hampering productivity, he added.

On why the RBI has persisted with a neutral stance, Patel said: "Many of the risks that we have cited, which informed our projections, are on both sides...there is a fair bit of uncertainty around the CPI prints going forward and therefore it was important that we kept our options open."

Viral Acharya, Deputy Governor, said the effects of the two consecutive rate hikes would play out only in due course as the transmission operates with a lag and it would take some time to bite on the inflation front.

Rajnish Kumar, Chairman, State Bank of India, said the RBI's decision reflects a desire to front-load the rate-hike cycle. The decision to retain its neutral stance points to a willingness to be flexible given the global growth uncertainties.

On the RBI's preparedness to deal with geopolitical risks and trade wars, Patel said: "We have already had a few months of turbulence behind us and it looks like this is likely to continue (but for how long, I don't know)."

"Trade skirmishes evolved into tariff wars and now we are possibly at the beginning of currency wars. Given this, we have to ensure that we run a tight ship on the risks that we control to maximise the chances of ensuring macroeconomic stability and continuing with the growth profile of 7-7.5 per cent going forward."

Tata Motors' CV market share grows

Tata Motors' comeback story in the commercial vehicles (CV) segment is getting stronger with the company showing an increase in market share across categories in the June quarter, aided by strong double-digit sales growth.

"We have seen market share increase across segments — the medium and heavy commercial vehicle segment (M&HCV), intermediate and light commercial vehicle (ILCV) segment and in the small trucks segment. We are quite happy with the way the numbers are progressing and we hope to maintain the momentum," PB Balaji, Group CFO, Tata Motors, told BusinessLine during a conference call. The company's market share in the M&HCV has increased by 480 basis points to 60 per cent, aided by 111 per cent growth in sales at about 38,000 units during the first quarter of this fiscal. Its market share in the ILCV segment grew by 340 basis points to 46 per cent. Sales in this segment grew by 73 per cent to 11,700 units.

The company's market share in the small CV and pick-up categories increased by 480 basis points to 41 per cent, supported by a 57 per cent growth in sales at about 46,900 units.

Impact on demand

Also, the company has registered strong growth in sales across regions — South: 57 per cent at 21,300 units; North: 69 per cent at 37,700 units; West: 63 per cent at 26,700 units and East: 85 per cent at 26,100 units.

Balaji indicated that the proposed truck axle norms may impact demand in the short term due to lack of clarity on various aspects.

"I am expecting a temporary impact on demand during this quarter. But it should reverse out going forward as intrinsic demand for CVs is extremely high in the country. There is strong demand for tippers, trucks and last-mile vehicles because infrastructure spend is continuing and GDP growth is doing well. We are very bullish on demand over the medium-to long-term," he added.

Even as the company awaits clarity on the new axle norms, it has started work on getting its trucks ready for them. "Three things have to be done — re-engineering, re-validation and re-certification, and we are on it," he said.

Safeguard duty will push tariffs up and hamper capacity growth, say solar power developers

Solar power developers have warned that the implementation of 25 per cent safeguard duty on solar cells and panels imported from China and Malaysia will push solar tariff up, make solar power less competitive and lead to slowdown in capacity addition.

The Ministry of Finance had, earlier this week, notified imposing a safeguard duty of 25 per cent for a year till July 29, 2019, followed by a duty of 20 per cent for the following six months and 15 per cent for another six months (till July, 29, 2020).

The safeguard duty was proposed by the DGTR after it was found that the increased imports of solar cells have caused "serious injury" and "threaten to cause serious injury" to the domestic producers. The notification was issued despite the Orissa High Court staying the imposition of safeguard duty until August 20, following a petition from one of the largest solar developers, ACME Solar.

An ICRA note said while imposition of safeguard duty for a short period of two years is unlikely to lead to any significant increase in the domestic solar module or cell manufacturing capacity, the move will lead to 15 per cent increase in the capital cost for a solar power project.

The industry players expect the safeguard duty to increase the solar tariff by 50-70 paise. Considering the average weighted tariff of Rs. 2.66, the tariff will cross Rs. 3 a unit.

Shashi Shekhar, Vice-Chairman of ACME Group, which emerged as the lowest bidder in multiple SECI auctions quoting record tariff of Rs. 2.44 per unit, said demand for solar power has increased because of the low tariffs achieved so far. "Why would discoms buy solar power if the tariff goes above Rs. 3 per unit when they can rather opt for thermal power," Shekhar asked.

"Application of the safeguard duty would adversely impact commercial viability of some solar power projects and the increased tariffs will be ultimately passed on to the customers, hampering adoption of clean energy," Nikunj Ghodawat, CFO at CleanMax Solar, one of the largest rooftop solar developers, said.

Samitla Subba, Head Communications, Azure Power, said the industry now expects a slowdown in the growth of solar power generation as several auctions have been cancelled recently as the tariff bid was above Rs. 3/unit.

Ongoing projects

While new bids will have the safeguard duty factored in the tariff, the projects under construction and those bid recently could face the most impact. Developers say the imposition of duty will push up the costs of the projects of 5,000-7,000 MW total capacity, putting pressure on the returns.

Although the amendments to bidding norms approved in April allow passing through the tariff increase to the off-takers, the "loose language" makes practical implementation of these amendments challenging and leading to lengthy litigations, industry players say.

LIC takeover may see infusion of Rs. 13,000 crore in IDBI Bank

The Life Insurance Corporation (LIC) has moved a step closer to acquiring controlling stake in IDBI Bank with the Union Cabinet giving its nod to the proposal.

"The Cabinet has approved conveying of no-objection to reduction in Government of India shareholding in IDBI Bank to below 50 per cent by dilution. It has also approved acquisition of controlling stake by LIC as promoter in the bank through preferential allotment / open offer of equity, and relinquishment of management control by the Government in the bank," a government statement said. A source in the know said there was also an effort to seek SEBI's exemption from an open offer.

"It is a win-win situation for both LIC and IDBI Bank," Interim Finance Minister Piyush Goyal told a press conference after a Cabinet meeting. Goyal said with the deal, LIC will have banking network with 1916 branches of IDBI Bank, 11 lakh LIC agents will help in mobilising low-cost fund, and LIC Housing Finance, an arm of LIC, will be benefit by branch network of the bank to expand its housing finance business.

IDBI Bank will get the much needed capital, which could be in the range of Rs. 10,000-13,000 crore depending upon the share prices.

The next stage in this deal will be the final approval by insurance regulator IRDAI. The deal will progress further by issuance of fresh shares by IDBI Bank which will acquired by LIC. On a bigger capital base, LIC's shareholding will go up to 51 per cent, from current 7.98 per cent. Meanwhile, on the expanded capital base, the government's shareholding will come down from to 45 per cent, from 85.96 per cent. However, this dilution will not give any money to the government.

Public shareholding minus LIC's holding is around 6 per cent. Since, acquisition above 25 per cent initiates the requirement of open offer, now the question is will this deal require open offer? Goyal said, "Since public shareholding (minus LIC) is very small, there may be not be requirement for open offer. Still options are being explored to seek exemption from SEBI on open offer condition."

Meanwhile, the Cabinet Committee on Economic Affairs (CCEA) approved fresh issuance of 13.87 crore shares by Hindustan Copper. This consists of 15 per cent of paid-up capital. The issuance will help the company mop-up over Rs. 900 crore through selling shares to institutional investors.

TRAI recommends lower prices for spectrum auctions

Another round of spectrum auctions is at hand. A protracted process of consolidation in the telecom sector has left the air waves dominated by three main players — Bharti Airtel, Reliance Jio, and Vodafone-Idea Ltd — and consequently, the soon-to-be-held spectrum auctions will be keenly watched.

On Wednesday, the Telecom Regulatory Authority of India (TRAI) made public its recommendations for the auctions, and suggested that the spectrum reserve prices for frequencies that remained unsold in the 2016 edition should be lowered.

For instance, the reserve price of the 700 MHz band has been kept at Rs. 6,568 crore per MHz: it was Rs. 11,485 crore in the October 2016 auction. The high price of the band had kept operators away, and the airwaves went unsold.

Spectrum bands such as 700 MHz, 3300 MHz and 3600 MHz are considered good for data services as well as for 5G, so one can expect aggressively bidding, which could push up the auction prices, say industry watchers.

If all the spectrum bands are auctioned at their respective reserve prices, the government stands to earn revenue of around Rs. 5.06-lakh crore.

Also, the base price of 700 MHz should be twice the reserve price of the 1800 MHz spectrum band. The base price of 1800 MHz is kept at Rs. 3,285 crore per MHz on a pan-India basis.

The regulator has also recommended reduction of price in telecom circles where spectrum remained unsold in the 2016 auction.

For the 5G spectrum like 3300-3600 MHz band, TRAI has suggested that the reserve price be 30 per cent of the reserve price of the 1800 MHz FDD band. It has suggested that spectrum in the 3300-3600 MHz band be put up for auction in the block size of 20 MHz.

"To avoid monopolisation of this band, there should be a limit of 100 MHz per bidder. Since TSPs are allowed to trade their partial or complete spectrum holding to another TSP, the limit of 100 MHz spectrum in 3300-3600 MHz band shall also apply for spectrum trading," TRAI said.

Cabinet okays LIC's buy of IDBI

Life Insurance Corporation is a step closer to acquiring a controlling stake in IDBI Bank, with the Union Cabinet giving its nod to the proposal.

"The Cabinet has approved conveying of no-objection to reduction in Government of India shareholding in IDBI Bank Limited to below 50 per cent by dilution. It has also approved acquisition of controlling stake by LIC as promoter in the bank through preferential allotment / open offer of equity, and relinquishment of management control by the Government in the bank," an official statement said.

A source in the know said there was also an effort to seek SEBI's exemption from an open offer.

"It is a win-win situation for both LIC and IDBI Bank," Interim Finance Minister Piyush Goyal told a press conference after the Cabinet meeting. Goyal said that with the deal, LIC and LIC Housing Finance will benefit from access to 1,916 branches of IDBI Bank. Moreover, 11 lakh LIC agents could help mobilise low-cost funds.

IDBI Bank, on the other hand, will get some much-needed capital, which could be in the range of Rs. 10,000- Rs. 13,000 crore, depending on the share prices.

Meanwhile, the Cabinet Committee on Economic Affairs (CCEA) also approved a fresh issuance of 13.87 crore shares by Hindustan Copper, 15 per cent of which will be paid-up capital.

Car sales slip marginally in July

Passenger vehicle makers including Maruti Suzuki India Ltd (MSIL) and Mahindra & Mahindra saw a marginal dip in their July sales due to higher base in the corresponding month last year. Uncertainties such as the truckers strike during the month added to the issues.

Short-term impact

However, the industry does not have to worry as this was a short-term impact, said experts.

"The year-on-year (YoY) growth alone should not be seen. The entire industry may be flat, but the market sentiment is positive and the absolute numbers are going to be higher on a month-on-month basis," RS Kalsi, Senior Executive Director, Marketing and Sales, MSIL, told BusinessLine over phone.

The company, which is going to launch the all-new Ciaz later this month, expects to add to the numbers in the coming months, he said. "The rural market will also do better as many were postponing purchases because of the monsoon and the floods last month — buyers wouldn't like to take out a new car during such times," Kalsi added.

The company sold 1,52,427 units last month compared with 1,53,298 units in July 2017.

Similarly, sales of M&M during the month declined 6 per cent to 19,781 units, compared with 21,034 units in July 2017.

"The auto industry has been subject to certain uncertainties with the truckers' strike and sluggishness on the retail front, which has impacted the passenger vehicle segment," said Rajan Wadhera, President, Automotive Sector, M&M.

But with the onset of the festival season, the company is seeing a turnaround in the overall buying sentiment, he added.

Ford India and Toyota Kirloskar Motor also reported a decline in sales. However, companies like Tata Motors and Honda Cars India reported positive numbers, riding on newly launched models.

Two-wheeler sales

In the two-wheelers segment, sales have been positive with market leader Hero MotoCorp reporting 9 per cent growth with around 6.80 lakh units, against around 6.23 lakh units in July 2017.