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Industrial output grows 3.8% in June, most in four months

Industrial production in June rose 3.8 per cent over a year ago - the highest rate in four months - mainly pushed by the manufacturing sector. A recovery in the mining and electricity sectors, though, remained elusive, showed official data released on Wednesday.

In fact, even manufacturing growth during the month was not broad-based; production of capital goods declined, while that of consumer non-durables showed only a marginal rise.

Cumulative industrial production growth in the April-June quarter, as measured by the index of industrial production (IIP), stood at 3.2 per cent, compared with 4.5 per cent in the same period a year ago. Though IIP accounts for only 25-26 per cent of industrial data used in national accounts, the year-on-year decline seen during the April-June period could have some adverse impact on India's gross domestic product (GDP) during the quarter.

OUTLOOK

Manufacturing PMI rose to a six-month high of 52.7 points in July, from 51.3 the previous month

Indirect tax collections jumped 39.1% in July; part of that came from a hike in excise duty on oil last year and a withdrawal of sops on automobile and other companies from January this year

The manufacturing sector's output grew 4.6 per cent in June, compared with two per cent the previous month. But this had a major impact on the overall IIP, as the sector has a little more than 75 per cent weight on the index.

Finance Minister Arun Jaitley said manufacturing growth, led by consumer durables and basic goods, was a positive development for the economy. "It shows the economy is firmly on the growth path."

Jailey said these figures were consistent and needed to be read with growth in indirect tax receipts. "It is especially notable that inflation has simultaneously declined to 3.8 per cent, with food inflation standing at only 2.2 per cent."

Jaitley added basic goods had done well, notably urea and complex grade fertilisers, various forms of steel, molasses and bagasse.

Electricity generation, meanwhile, rose only 1.3 per cent during the month, compared with six per cent in May. This could have an adverse impact on industrial activity. Growth in this segment, though, looked low also because of a high base of 15.7 per cent in the same month a year ago.

Mining, too, could not join the growth story. Production in this segment fell 0.3 per cent, compared to a rise of 2.3 per cent in May this year, and a increase 4.8 per cent in June last year.

"IIP growth was led by manufacturing. Mining and electricity performed poorly in June," said India Ratings & Research Chief Economist Devendra Kumar Pant.

Within manufacturing, capital goods contracted 3.6 per cent, after seven months of growth. Pant said this pointed to a weak investment condition.

Consumer durables production, on the other hand, grew 16 per cent. But that is largely due to a low base; the output had fallen over 23 per cent in June last year.

Besides consumer durables, basic goods also showed reasonable growth, of 5.1 per cent, though the rate was half the 10.2 per cent seen a year ago.

Elsewhere, within manufacturing, production of intermediate goods rose only 0.8 per cent and that of consumer non-durables 1.3 per cent. Consumer non-durables not showing high growth might prove a signal for RBI to cut rates.

But since the push to IIP came from basic goods and consumer durables, Pant believed it gave an indication that consumption was taking place.

Also, the contraction in capital goods does not augur well for a healthy investment scenario.

Pant said demand was there but it was not rising because there was still some existing capacity. "Thus, greenfield expansion is not happening."

Madan Sabnavis of CARE Ratings said though growth in manufacturing was encouraging, the time to rejoice had not come yet. To come to the conclusion that recovery was happening, this trend would have to continue beyond September, he said.

Recently, Chinese smartphone maker Xiaomi announced a tie-up with Foxconn to start an assembly unit in India, while Foxconn separately said it would invest $5 billion in setting up an electronics manufacturing factory in Maharashtra over three years. However, these initiatives will take time to fructify. A slowdown in the Chinese economy and a devaluation of the yuan will also affect the Indian economy, as large-scale dumping will take place.

China derails stocks, rupee for a 2nd day

China's move to devalue its currency by another two per cent on Wednesday stunned economies globally, for a second straight day, sending shock waves across stock, commodity and currency markets; and Indian markets were no exception.

Following persistent dollar buying by importers, and amid limited intervention by the Reserve Bank of India, the rupee plunged to a low of 64.94 a dollar during the day before recovering a little to close at 64.81. The Indian currency, which had closed at 64.21 a dollar on Tuesday, is trading near its lowest level in two years. It had touched a low of 66.19 a dollar on August 27, 2013.

Similarly, stocks tumbled for a fourth straight day, with the BSE benchmark Sensex declined 354 points, or 1.3 per cent from its previous close, to end the day at 27,512.26, its lowest level since July 28. The National Stock Exchange's Nifty fell 112.9 points, or 1.33 per cent, to close at 8,349.45. According to provisional data, foreign investors sold shares worth Rs 1,855 crore ($285 million), the most during a day in more than three months.

There could be more pain in store, as media reports suggest that Beijing could further devalue the yuan to boost the country's exports, which in July fell 8.3 per cent from a year ago.

Though Chinese authorities had said Tuesday's devaluation was a one-off move, a second reduction in the Chinese currency's value on Wednesday led to speculation that other nations might also embark on a currency war. The yuan, which was devalued by 1.85 per cent on Tuesday, further fell 1.98 per cent on Wednesday.

Currency dealers said the rupee could soon breach the psychological 65-a-dollar level. "The next level for the rupee is expected to be 65.20. If it reaches that level, the rupee might even touch 65.80 a dollar. The Indian currency going back to lows seen on August 27, 2013, though, is a remote possibility," said Xpress Money Chief Operating Officer Sudhesh Giriyan.

Some experts, however, believe the weakening could go beyond that. "The short-term outlook is not in favour of the Indian currency... there could be an extended weakness to 66.50-67 a dollar, with a dollar-rupee base at 64-64.50. More devaluation actions from China are not ruled out, and domestic cues build a risk of policy paralysis, with the government struggling to push through critical policy initiatives," said J Moses Harding, group chief executive (liability & treasury management), Srei Infrastructure Finance.

The rupee's weakening this time has been more gradual than that seen two years ago. While it had fallen from 60 a dollar to 65 in 19 trading sessions at that time, it has taken 260 trading sessions this time around.

"A gentle depreciation in the rupee would be welcome news for India. Given the global forex moves, this will help bring the REER (real effective exchange rate) to more reasonable levels, from the 11 per cent overvaluation at present. We still have large levels of unhedged foreign currency exposures. Hopefully, further monetary policy easing in India will help address this as well," said Ananth Narayan, head (financial markets), Standard Chartered Bank

The central bank now has more ammunition to fight any currency volatility — with a $350-billion forex reserves, compared with $274 billion two years ago — but its intervention on Wednesday, according to traders, was limited. "The rupee could weaken to 65.50 a dollar in the near term. On Wednesday, RBI intervened in the market but that was not very effective," said Ashwin Shetty, senior vice-president (treasury), UAE Exchange.

The Street believes RBI would discuss during its central board meeting, scheduled for Thursday, the present volatility arising out of Beijing's action. HDFC Bank Chief Economist Abheek Barua said in a note to clients that the rupee was less overvalued than most of its Asian peers, excluding the Japanese yen. Besides, the fact that India was a current-account-deficit economy implied a fall in the prices of commodities, particularly crude oil, was likely to rein in the deficit and ensure the rupee outperformed it peer group.

The decline in stocks was led by metal companies, whose shares fell sharply for a second day in a row, amid a decline in prices of base metals and concerns of demand taking a hit due to Chinese substitution. Shares of Vendata and Hindalco dropped over seven per cent each, while Coal India and Tata Motors shares fell 5.5 per cent and 3.9 per cent, respectively. Market experts said shares of companies that had business links to China could continue to be under pressure. The banking stocks also came under pressure due to their exposure to commodity companies. State Bank of India fell 4.8 per cent, and ICICI Bank declined 3.4 per cent.

"Commodity prices are likely to remain volatile, with a downward bias, until events in China stabilise. India, by virtue of being a net commodity importer, should continue to be a beneficiary. However, we could see increasing stress of falling commodity prices on banks, where metals account for six per cent of outstanding loans," said Abhay Laijawala, MD & head of research, Deutsche Bank.The rupee's fall, though, helped Indian technology companies, most of them exporters of services. Their shares gained for a second straight day.

Investors upbeat on Tata Motors

Since the announcement of its disappointing first quarter results, the Tata Motors stock has dipped nearly 10 per cent on the BSE. Its net profit almost halved following the dismal performance by its cash cow, Jaguar Land Rover (JLR), especially in China.

However, there hasn't been a mad rush to dump the stock. Market watchers say the China worry was factored in since the beginning of the year when retail volumes remained under pressure for not only JLR, but its peers such as Audi and BMW, too.

"The demand normalisation in China has happened significantly faster than anticipated and management concedes that situation is only evolving, with no signs of immediate turnaround," said Kaushal Maroo of Emkay Global Financial Services.

The impact of a general slowdown in luxury car demand in China is not as severe as it is made out to be. According to Tata Motors, the reason behind the disappointing numbers is the slow ramp-up in local production of JLR's flagship product Evoque.

"The issue has purely been ramp-up – one out of imported Evoque and ramp-up of the new Evoque. More importantly. the new integrated marketing, sales and service organisation has been set up to support sales for the joint venture. That has also been an issue in the past. We've made some changes in the organisation and added some new people who will address those issues," said Vijay Somaiya, head of investor relations at Tata Motors.

"In this quarter, we have seen China's share of our global volumes in Jaguar Land Rover come down from 29 per cent (in year-ago quarter) to 14 per cent. The overall volumes have still been quite respectable and turnover rates are also on par. But margins have come down due to China. Volumes in China are up. China will continue to be an improving market for us," said C Ramakrishnan, chief financial officer at Tata Motors, in a conference call.

JLR will see a bevy of launches this year, some of which will be volume generators positioned much below its current line up. A new Discovery Sport, Jaguar XE, all-new Jaguar XF, Range Rover Evoque, 2016 model year Jaguar XJ, the Jaguar F Pace and the much-awaited Evoque convertible are the launches expected later this year.

"These products are expected to drive significant volume growth in the current year. We feel good about the future despite 2014 being a difficult year for JLR. Longer-term, we continue to feel optimistic about our growth," added Ramakrishnan.

China demand is expected rebound in the coming quarters after the market stabilises. For JLR, the prospects are bright as its market penetration remains the lowest compared to that of Mercedes-Benz, Audi and BMW. Growth for JLR in China surged higher than its peers during the previous years because of a constantly-improving distribution network setting a high base. At present, China is the world's largest automotive market even for luxury vehicles.

"We believe the slowdown in Chinese market would result in volume moderation over the next two quarters, although we expect remarkable improvement in FY17 "

IDBI Q1 net up 27% at Rs 135 crore

IDBI Bank's net profit for the first quarter ended June rose 27 per cent to Rs 135 crore on a substantial rise in net interest income (NII) — the difference between interest earned and expended — and other income comprising fees, commissions and treasury earnings.

The public sector lender had posted a net profit Rs 106 crore in April-June 2014.

Despite better growth in topline, IDBI Bank's shares were down four per cent at Rs 62.30 apiece on the BSE on Wednesday.

The bank's NII rose 20 per cent to Rs 1,495 crore in the first quarter of FY16 from Rs 1,250 crore in the year-ago quarter. The net interest margin (NIM) — the difference between interest paid and interest received — rose to 1.83 per cent in the quarter under review from 1.70 per cent a year ago, said N S Venkatesh, executive director and chief financial officer, IDBI Bank.

According to Venkatesh, among the factors that helped post better growth in interest income are increase in retail loans that fetch higher margins than corporate loans, and enhanced earning on deposits with the Rural Infrastructure Debt Fund.

Credit stood at Rs 2,04,339 crore during the quarter under review, an 11 per cent increase from Rs 1,84,581 crore a year ago. Its deposits increased 15 per cent to Rs 2,41,328 crore from Rs 2,10,343 crore. Credit is expected to grow at 12-15 per cent and deposits at 14-15 per cent in FY16, said Venkatesh.

Ford enters compact sedan mkt with Figo Aspire

Ford has expanded its product range with the launch of Figo Aspire, its first compact sedan, pricing the entry level model aggressively to compete with Maruti Suzuki's Dzire, Hyundai's Xcent and Honda's Amaze.

Available in petrol and diesel variant, the 1.2-litre engine petrol variant is priced at Rs 4.9 lakh (ex showroom, Delhi) while the 1.5-litre engine variant is priced at Rs 7.8 lakh. The 1.5-litre engine diesel variant is priced from Rs 5.9 lakh to Rs 8.24 lakh. Aspire offers features such as six air bags and speed limiter that are first in the compact sedan segment.

"The year 2015 is the year of next stage of growth for Ford in India. We plan to launch three products in next six months starting with the Figo Aspire," Ford India president Nigel Harris said. Ford plans to launch a new Figo hatchback to replace the current Figo before the festive season and a new Endeavour early next year.

The compact sedan segment is abuzz with activity and companies compete fiercely in pricing and features. About 30,000 units of compact sedans are sold a month.

"Products like Figo Aspire will come out of our Sanand facility not only for the Indian market but also for other global markets. That plant is going to be an export hub," Harris said.

At present, Ford India exports around 60,000 to 70,000 units annually to over 35 global markets from its Chennai- based facility. With its new Sanand factory getting operational, the company is eyeing a total of 50 export markets

City Union Bank Q1 net grows 12% to Rs 111 cr

Kumbakonam-based City Union Bank (CUB) posted 12.1 per cent growth in net profit to Rs 111.6 crore during the quarter ended June, compared with net profit of Rs 99.5 crore during the corresponding period last year.

The total income grew 7.6 per cent at Rs 811 crore during the quarter, compared with Rs 754 crore during the corresponding period last year.

The gross non-performing assets (NPA) for the quarter was at Rs 359 crore (nearly two per cent of the gross advances), compared with Rs 336 crore (about 1.9 per cent) during the previous quarter and Rs 308 crore (1.9 per cent) during the corresponding quarter in the previous financial year.

Net NPAs stood at Rs 234 crore (1.3 per cent) during the quarter ended June 30, against Rs 233 crore (1.30 per cent) in the previous quarter and Rs 204 crore (1.28 per cent) during the corresponding quarter of last year.

Slippage during the quarter ended June 30, was around Rs 72 crore.

Walmart resumes India expansion after 3-yr break

Walmart, the world's largest retail chain, opened its 21st store in India on Wednesday, after a gap of almost three years. It had stalled expansion in compliance with the US anti-graft law — Foreign Corrupt Practices Act (FCPA) — over possible violations in Mexico, China, India, Brazil, among others. The latest store that has come up in Agra, the second in the city, follows one in Bhopal in November 2012.

Walmart had entered a joint venture with Sunil Mittal-led Bharti Enterprises in 2007 for a cash-and-carry or wholesale venture. The company had plans to enter the multi-brand retail sector once the government policy allowed foreign direct investment (FDI). Even as 51 per cent FDI was permitted in multi-brand by the United Progressive Alliance government in 2012, Walmart made it clear conditions attached to the policy, primarily sourcing norms, were not feasible. "FDI policy has passed…..", then Asia head Scott Price had famously said, triggering speculation on a partnership break-up. Soon, the US chain broke off with Bharti. In the cash-and-carry format space, where Walmart is doing business in the country, there's no restriction on FDI.

So, the Agra store signifies a break from the past as it is the first standalone brick-and-mortar expansion for Walmart India. It ended its partnership with Bharti two years ago.

The latest expansion is a beginning for its plan to have 50 stores in five years, and such a plan indicates Walmart is a long-term player and is here to stay in India, according to an analyst. That's because the group has faced policy hurdles and drawn political flak besides break-up pangs and corporate issues, but it has not made an exit from the India market.

Krish Iyer, president and CEO, Walmart India, told Business Standard: "We are committed to growing this business…. We are on course to opening 50 more cash-and-carry stores in the next four-to-five years. Opening the 21st store in India reiterates our commitment to the country and our growth plans."

Walmart had entered India with the aim of capturing the fast-growing Indian retail market, but it does not even talk about multi-brand retail any more, whatever might be its real plans.

For now, it has decided to stick to cash-and-carry, where policy roadblocks are fewer and easier to handle. Its e-commerce foray has also been restricted to the business-to-business space till now.

The company did not reply to any question asked by this newspaper on whether it had plans to enter multi-brand retail sector any time in future. It also refused to answer on its e-commerce plans in the business-to-consumer space through the marketplace format, if any. Although FDI is not permitted in e-commerce, most leading online chains operate through the marketplace model and are funded by foreign investors. There are no FDI caps in marketplace, as opposed to inventory-led business.

Currently, the 21 cash-and-carry stores branded as Best Price Modern Wholesale stores are present in nine states. "We are pleased with the focus of both the Centre and states on 'ease of doing business'," Iyer said in an e-mailed statement

RInfra Q1 down 12% to Rs 401 cr

Reliance Infrastructure's net fell 12 per cent to Rs 401 crore for the April-June period of 2015-16, against Rs 458 crore during the corresponding quarter in the previous year.

This is due to a loss of Rs 50 crore incurred by Mumbai Metro and Rs 39 crore by its cement business.

However, total income rose six per cent to Rs 4,829 crore, against Rs 4,548 crore earlier. Earnings before interest, taxes, depreciation and amortisation rose 15 per cent to Rs 1,241 crore.

Power purchase cost was reduced to Rs 1,836 crore in June quarter of 2015-16 from Rs 1,997 crore from the previous quarter but employee expenses increased to Rs 335 crore against Rs 278 crore.

The consolidated networth stood at Rs 27,389 crore and financed at debt equity ratio of 0.97.

Shares of Reliance Infra on Wednesday closed at Rs 380.7.