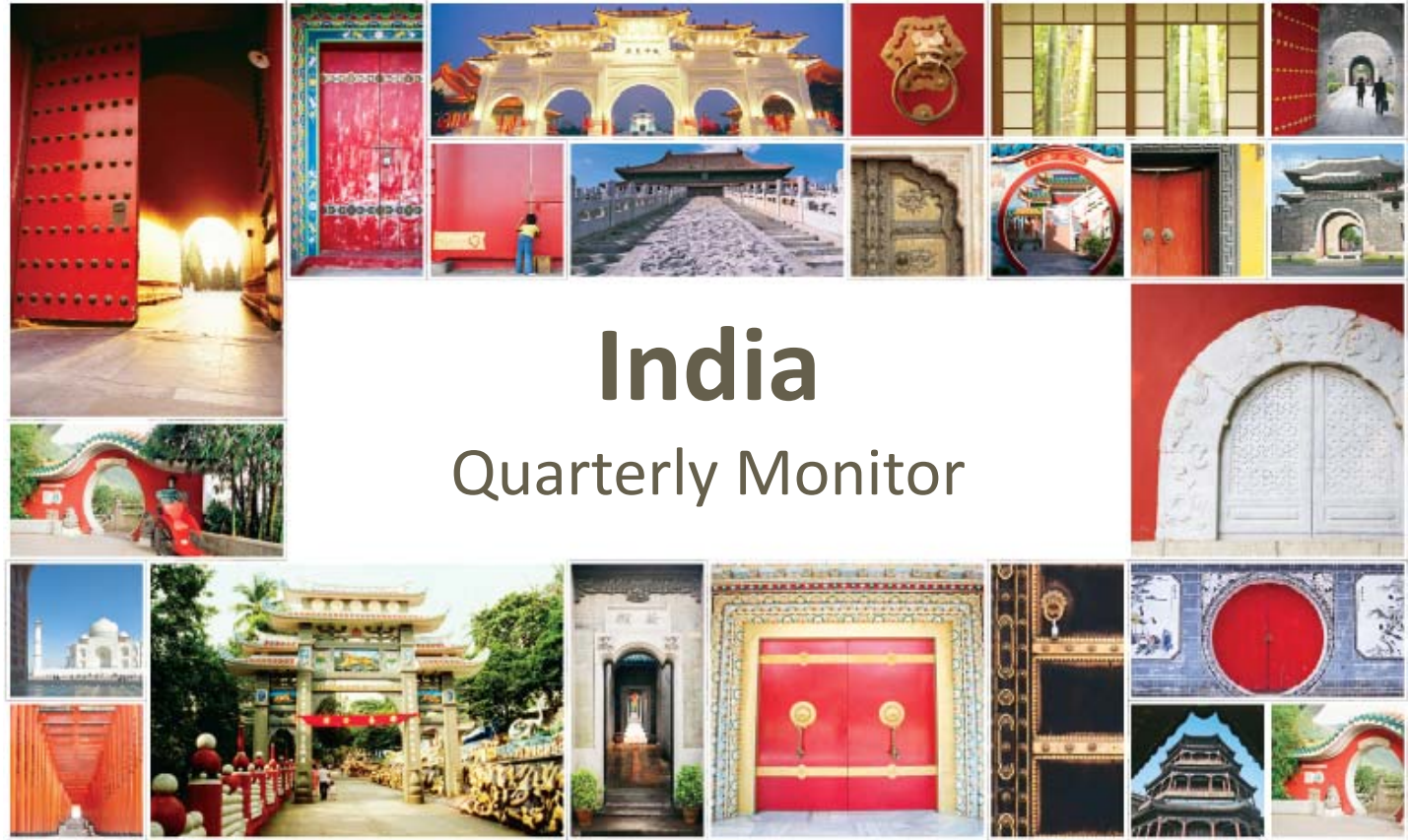




ASiYA
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India

Quarterly Monitor

■ ■
Q4 2015

Asiya Research *at a glance*

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India: investments finally picking up, but C/A deficit remains a concern

Indicator	2014	2015f	2016f
Real GDP Growth (YoY)	7.2	7.5	7.5
IP Growth (YoY)	1.8	3.0	2.8
Exports (YoY)	9.5	0.6	10.5
Imports (YoY)	3.3	8.4	6.5
Trade Balance (% of GDP)	-7.1	-6.5	-6.2
Money Supply (YoY)	10.1	13.4	12.8
Inflation (YoY)	3.8	-0.3	5.0
Current Account (% of GDP)	-3.3	-2.8	-3.0
Budget Balance (% of GDP)	-5.7	-5.5	-5.6
Government Debt (% of GDP)	55.8	56.2	54.5
USD:INR	61.0	63.0	65.0

Source: IMF, Oxford Economics, Consensus & Asiya forecasts, 2015.

1. **Economics:** business cycle in early expansion.

- *Growth:* eased in Q2-2015, driven by a wider trade deficit as exports dropped more than imports.
 - *Consumption:* was stable in Q2, though production of consumer goods eased. Auto sales growth fell, while motorcycle sales rebounded.
 - *Investment:* was in a strong recovery in Q2. CAPEX expenditure was on an upward trend, especially in manufacturing where it was in expansion. Commodity traffic is on the rise.
 - *Government:* revenue picked up sharply, but fiscal deficit persisted.
 - *Net exports:* trade deficit widened, and both imports and exports were in contraction.
- *Inflation:* headline figure still low, allowing for accommodative monetary policy.
- *Currency:* the rupee depreciated against the USD, but roughly unchanged against other currencies.

2. **Markets:** stocks outpaced global and regional markets in Q3.

- *Performance:* outperformed AXJ and world, but has been on a downward trend in the last few months.
- *Earnings/valuations:* falling in earnings, shares a little overpriced.

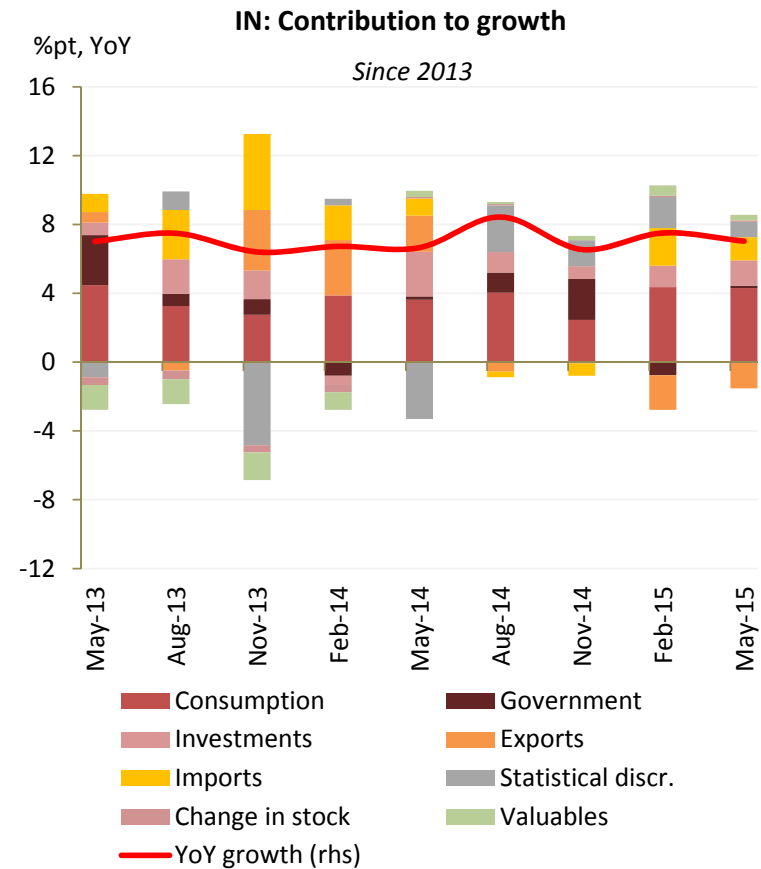
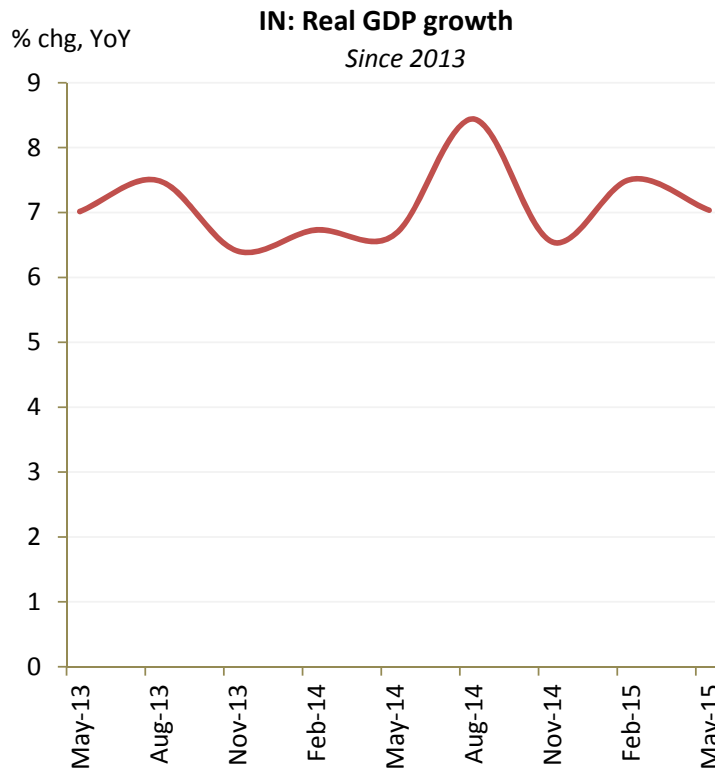
3. **Risks:** depreciating rupee, high rates, low growth, twin deficit

- Sharp rupee depreciation, as USD strengthens and cash flight to safety.
- Twin deficit (current account & fiscal deficits) eating away FX reserves.
- Lack of investments perpetuating inflationary pressures.
- Inflation rise, preventing RBI to cut high rates, hurting disposable income.

India: weakening trade contributed most to the GDP slowdown in Q2

Real GDP growth eased in Q2 ...

... due to weaker trade activity .



*Note: GDP calculation was changed from factor cost to market price. Base year was changed from 2004-05 to 2011-12

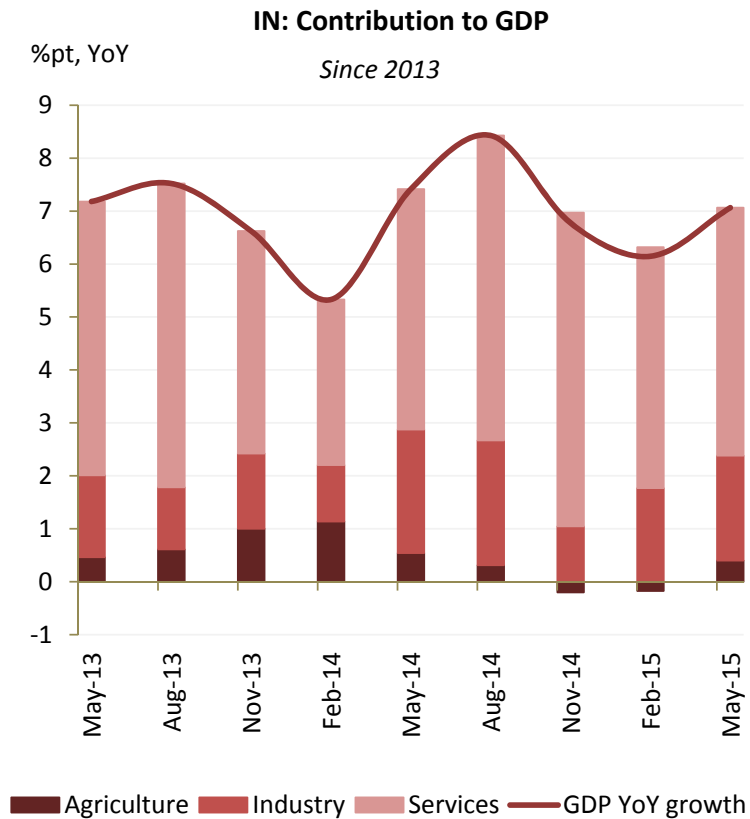
Source: Asiya Research on DataStream, 2015.

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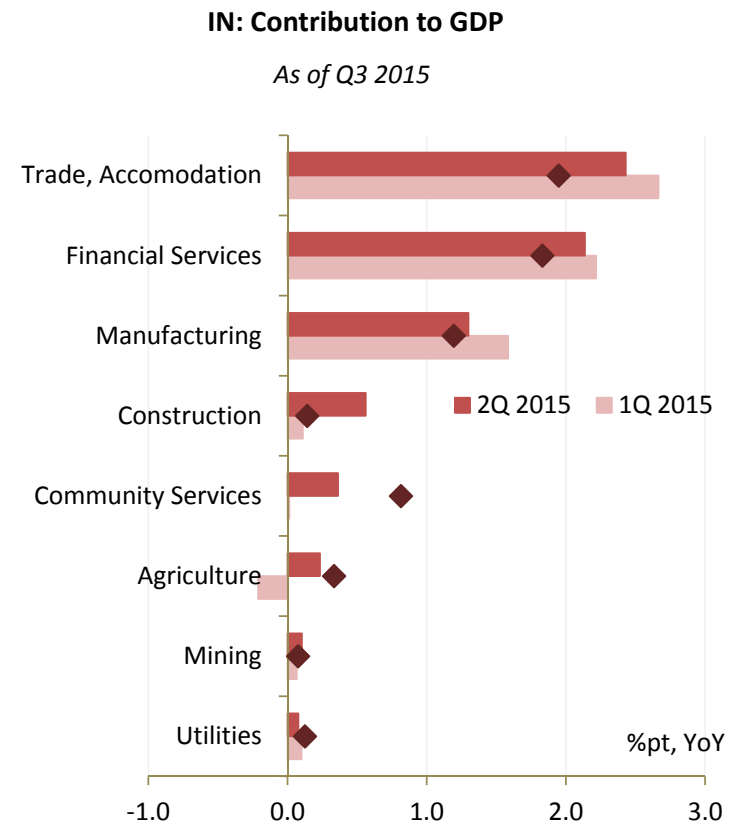
India: financial services and agriculture contribution to GDP grew

Agricultural sector recovered ...

... as well as construction.



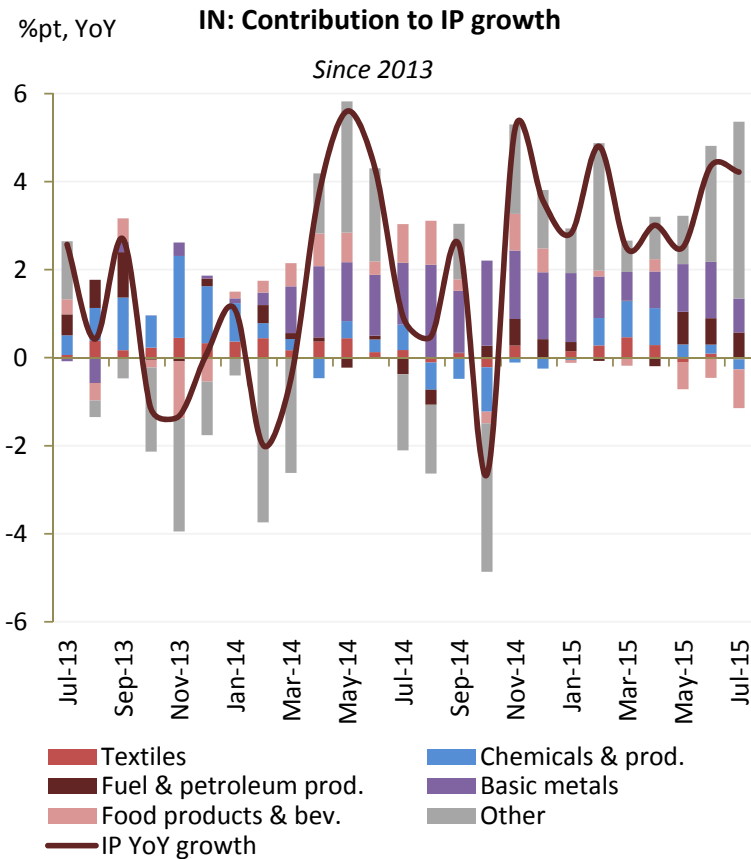
Source: Asiya Research on DataStream, 2015.



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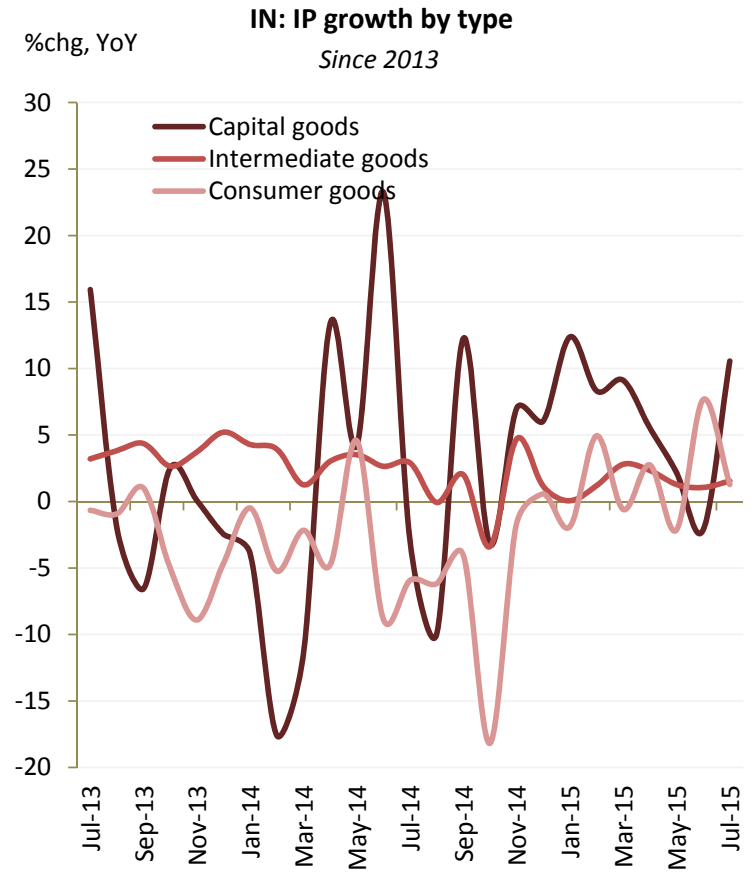
India: factory data suggests an improvement in the sector

IP growth was robust but volatile.



Source: Asiya Research on DataStream, 2015.

Capital goods production rebounded sharply.

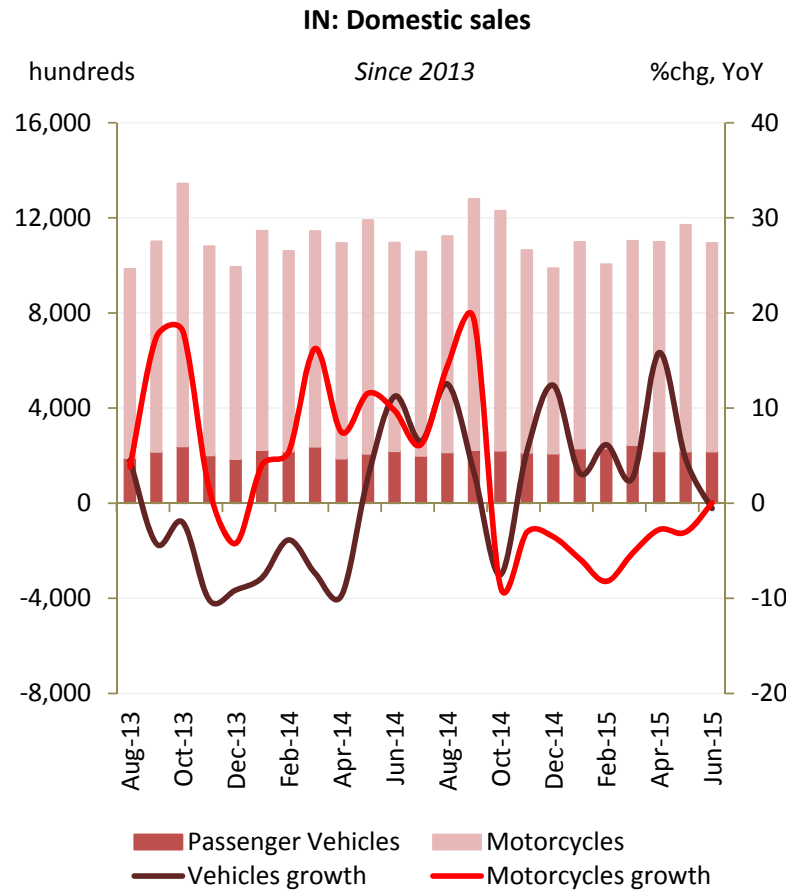


Source: Asiya Research on DataStream, 2015.

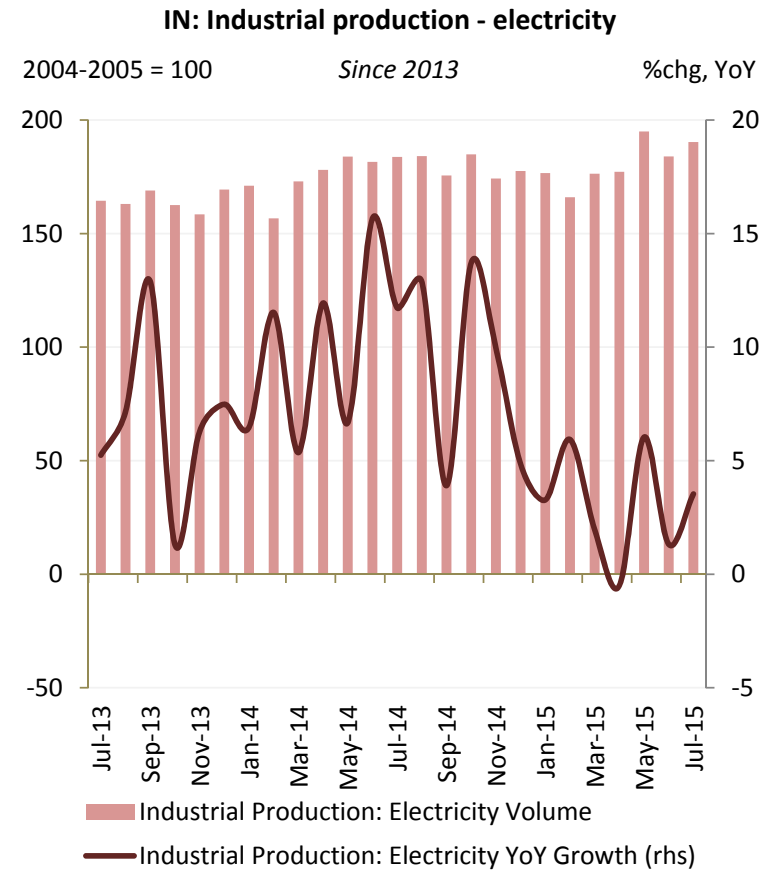
India: demand for vehicles is weak, but electricity output strengthened

Zero yearly growth in motor vehicle sales.

Electricity production growth is bottoming up.



Source: Asiya Research on DataStream, 2015.

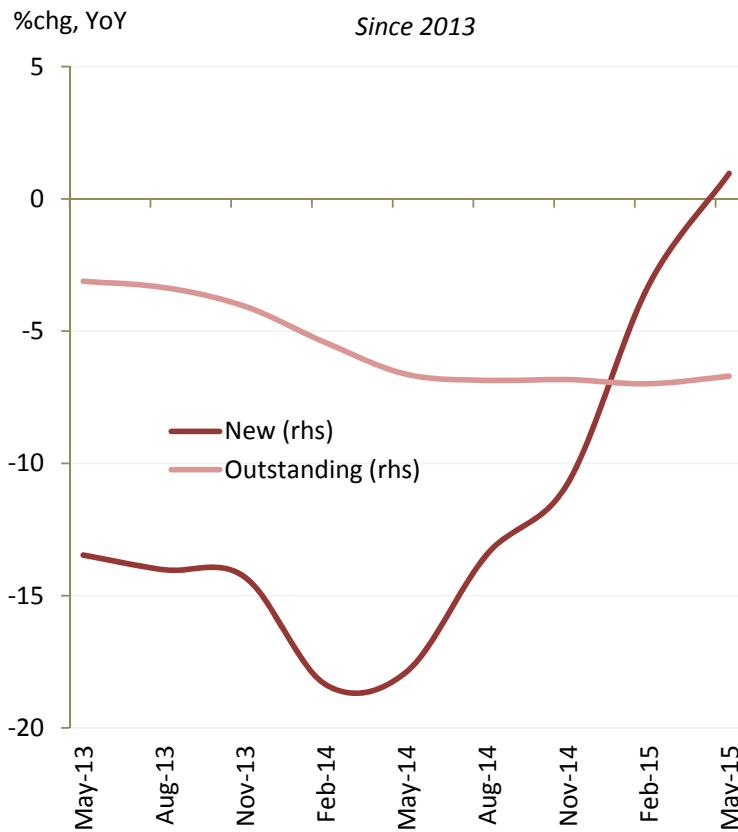


Source: Asiya Research on DataStream, 2015.

India: FDI inflows decreased

New capex projects increased in Q2.

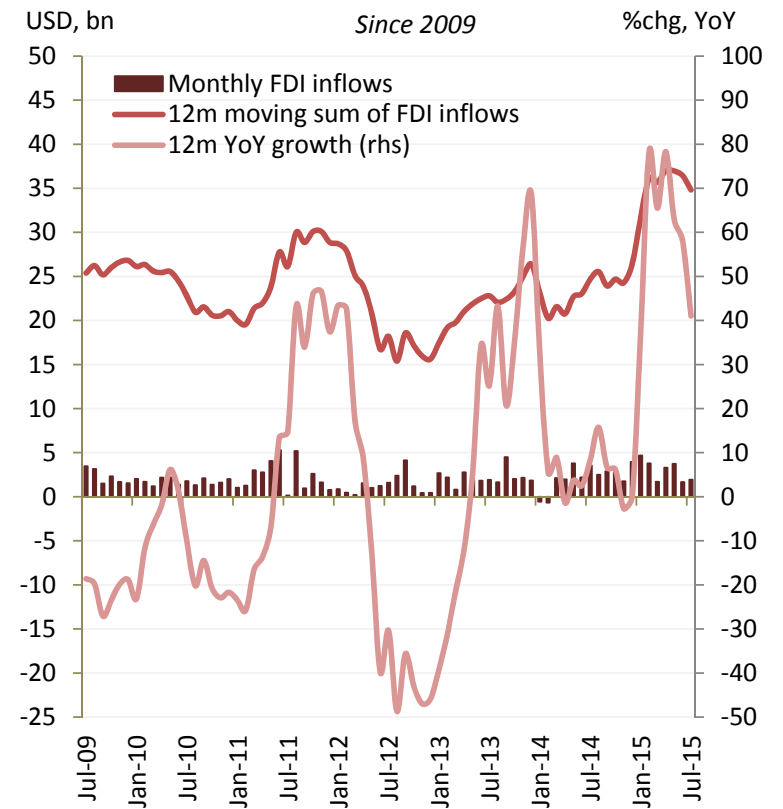
IN: CAPEX projects



Source: Asiya Research on DataStream, 2015.

FDI inflows dropped.

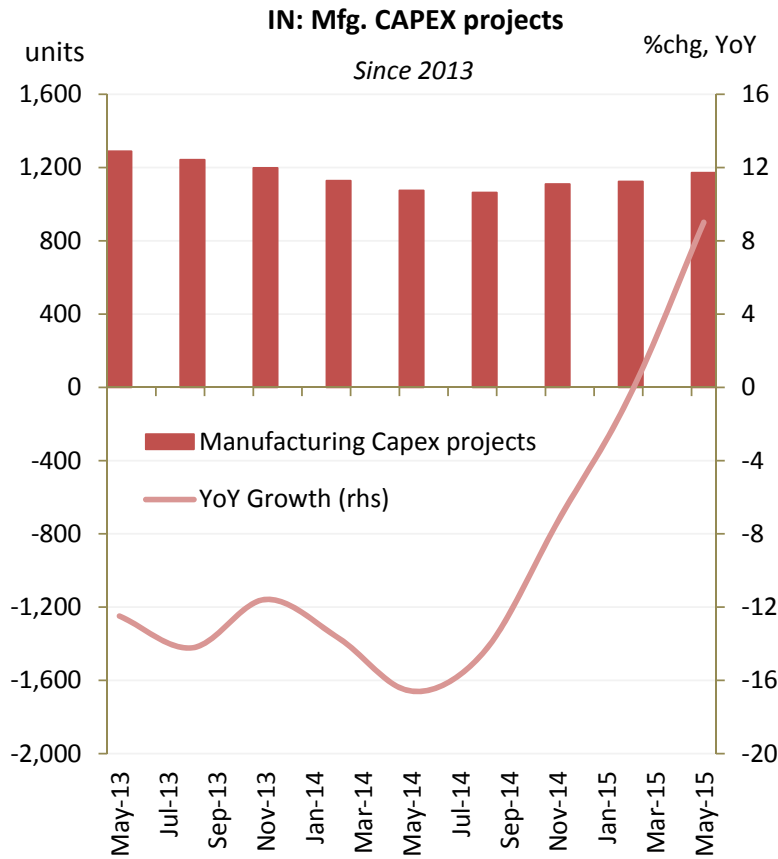
IN: FDI inflows



Source: Asiya Research on DataStream, 2015.

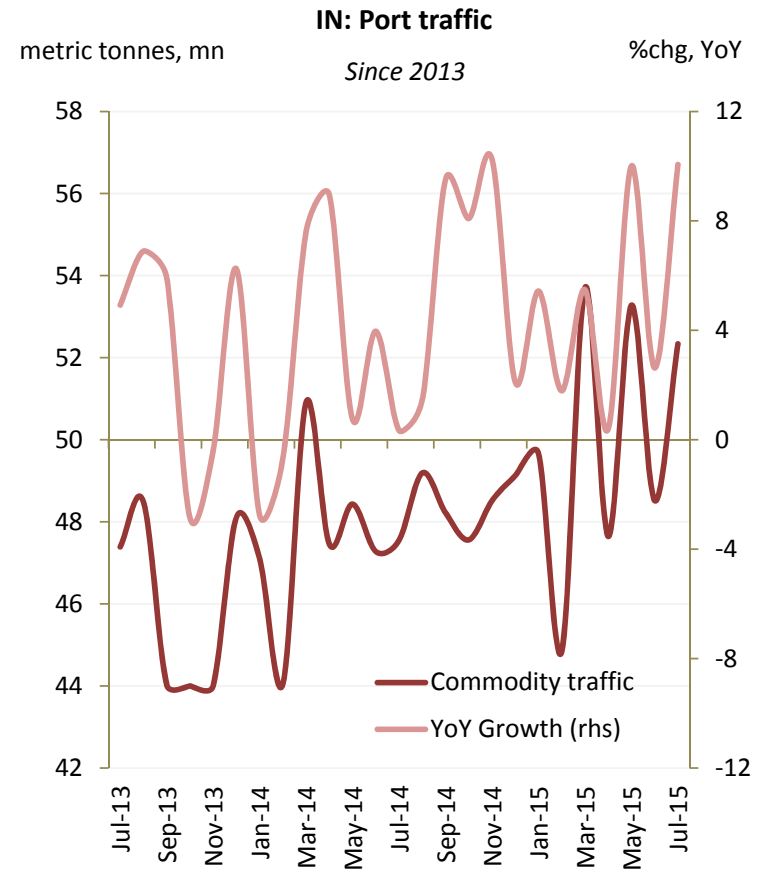
India: investments are finally recovering in manufacturing

Manufacturing CAPEX growth picked up.



Source: Asiya Research on DataStream, 2015.

Trade traffic volumes in an upward trend.

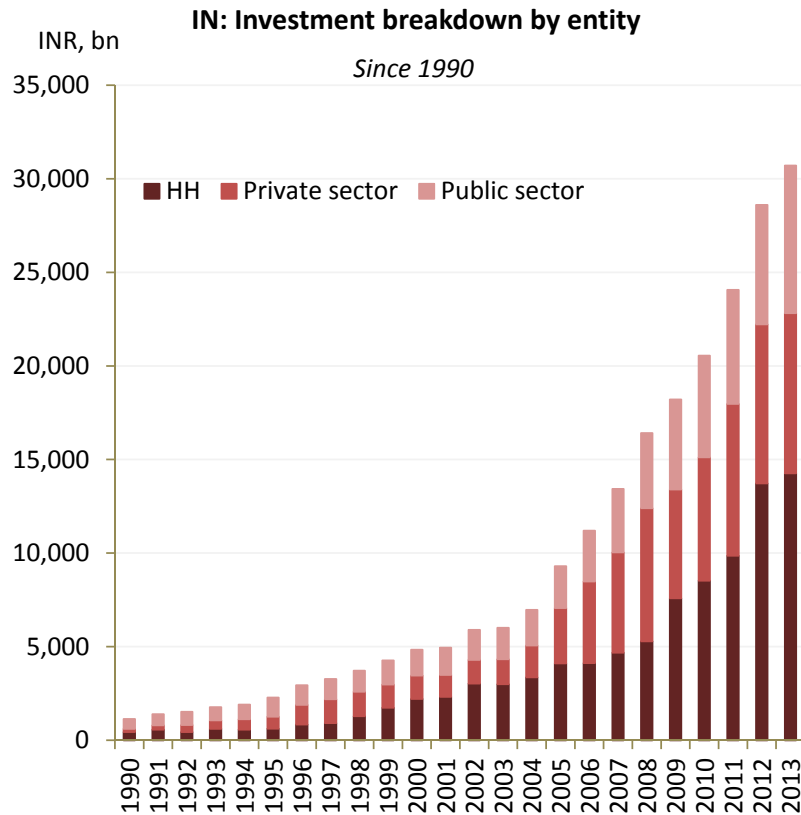


Source: Asiya Research on DataStream, 2015.

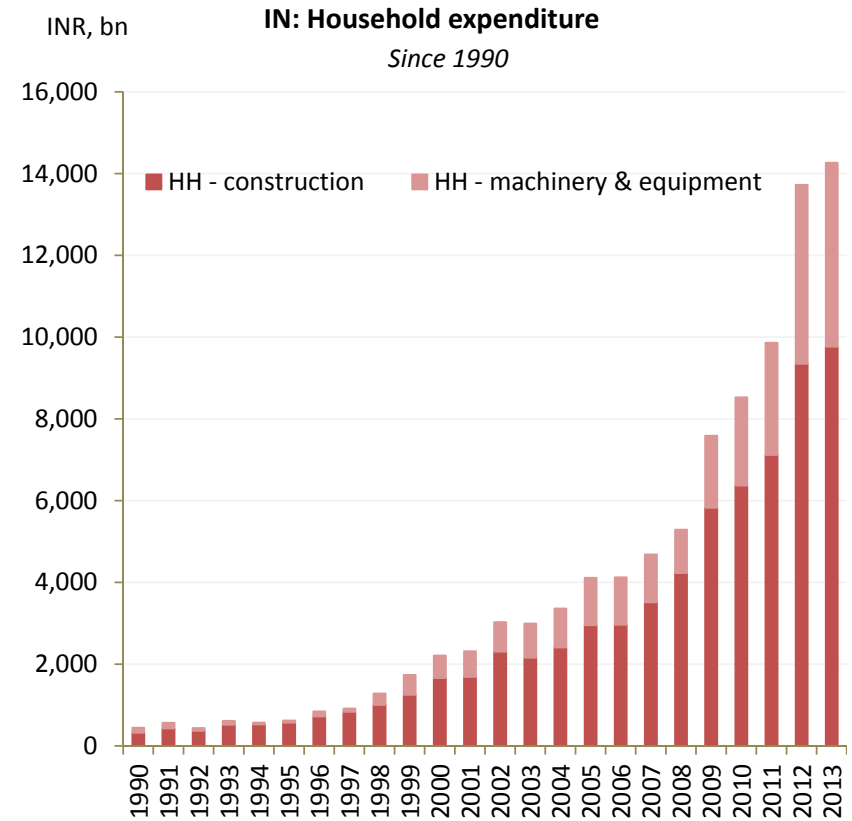
India: investments by HH weigh the most on GDP in 2013

Non-public investments grew at a slower pace in 2013.

Bulk of HH expenditure on construction.



Source: Asiya Research on DataStream, 2015.

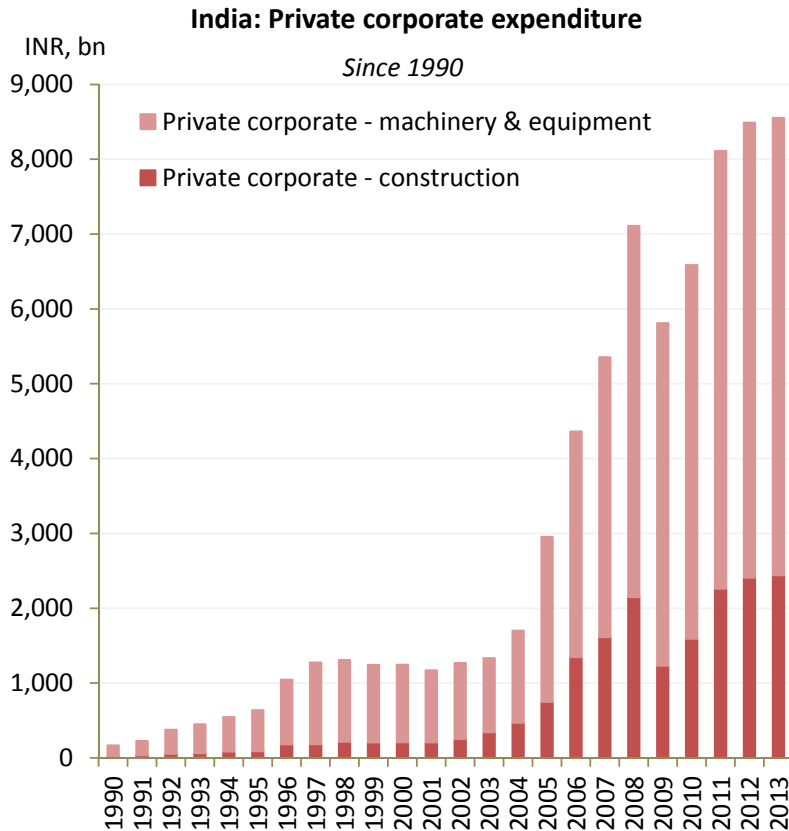


Source: Asiya Research on DataStream, 2015.

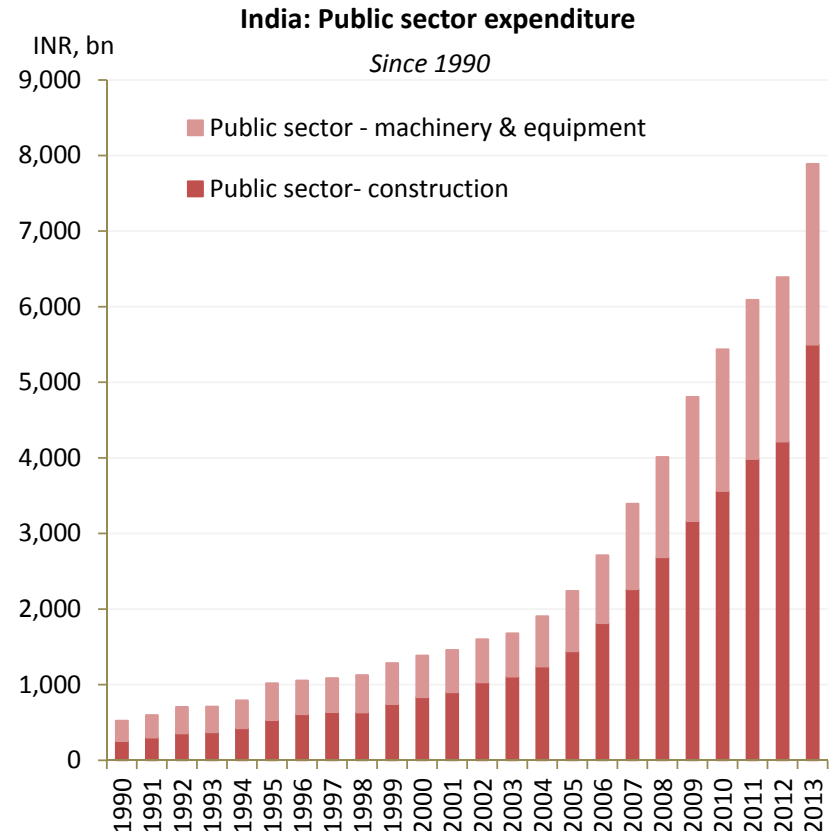
India: private sector investments stabilize, while public investments rise

Private sector exp. was unchanged in 2013.

The state expenses from construction increased in 2013.



Source: Asiya Research on DataStream, 2015.

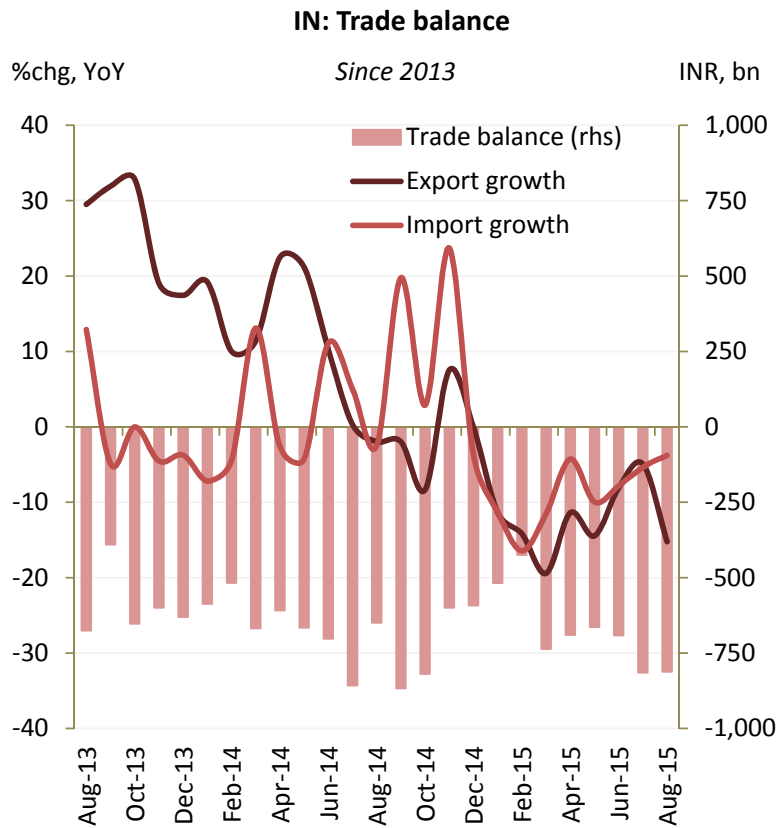


Source: Asiya Research on DataStream, 2015.

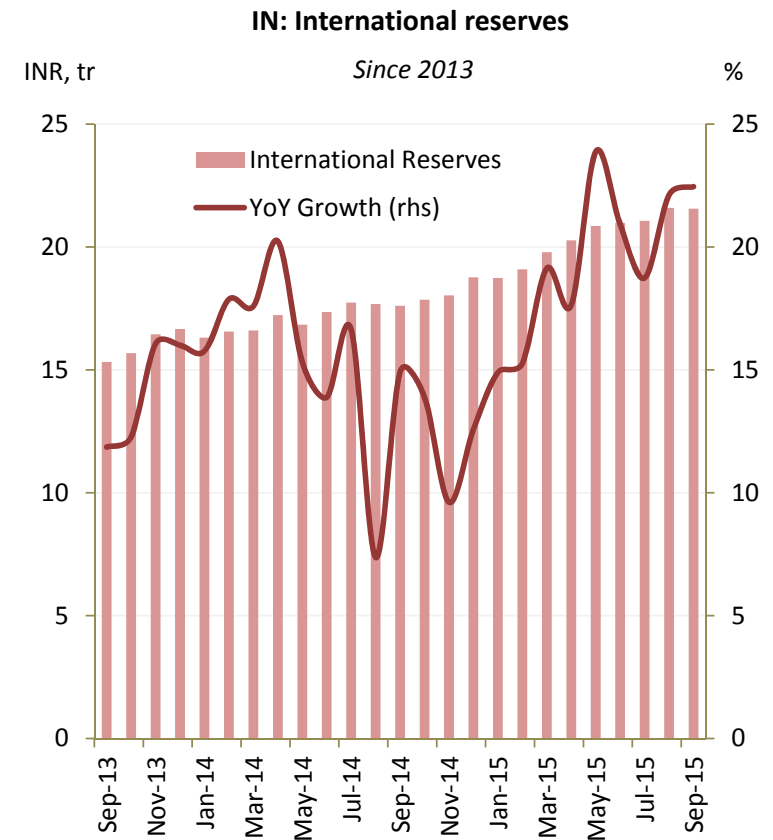
India: deficit widened, and trade continued to contract

Both exports and imports in contraction, widening deficit.

International reserves accelerated in Q3.



Source: Asiya Research on DataStream, 2015.

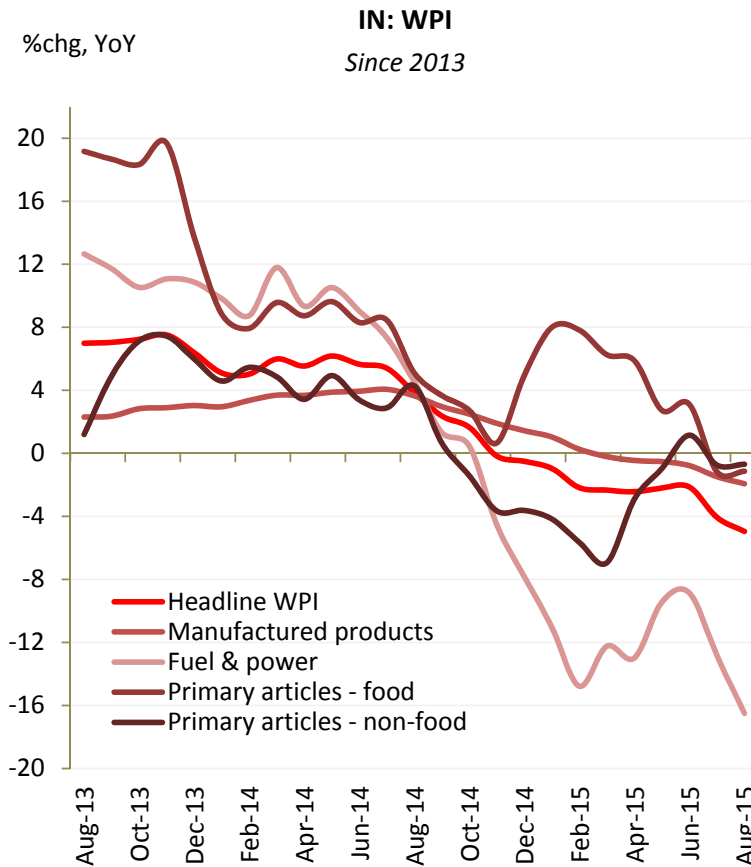


Source: Asiya Research on DataStream, 2015.

India: WPI in deflation, mainly on energy components

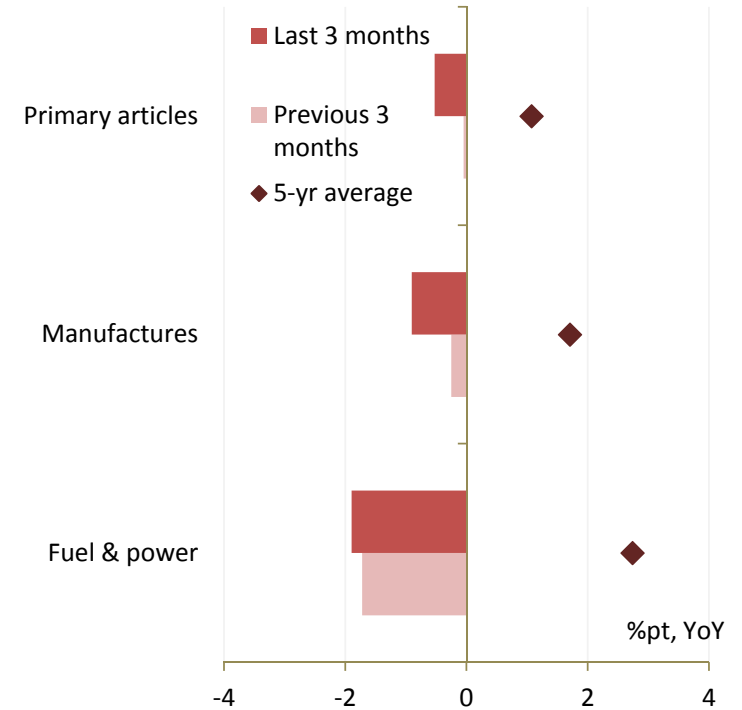
WPI is in deflation, including core.

The fall in prices accelerated in all components of WPI.



Source: Asiya Research on DataStream, 2015.

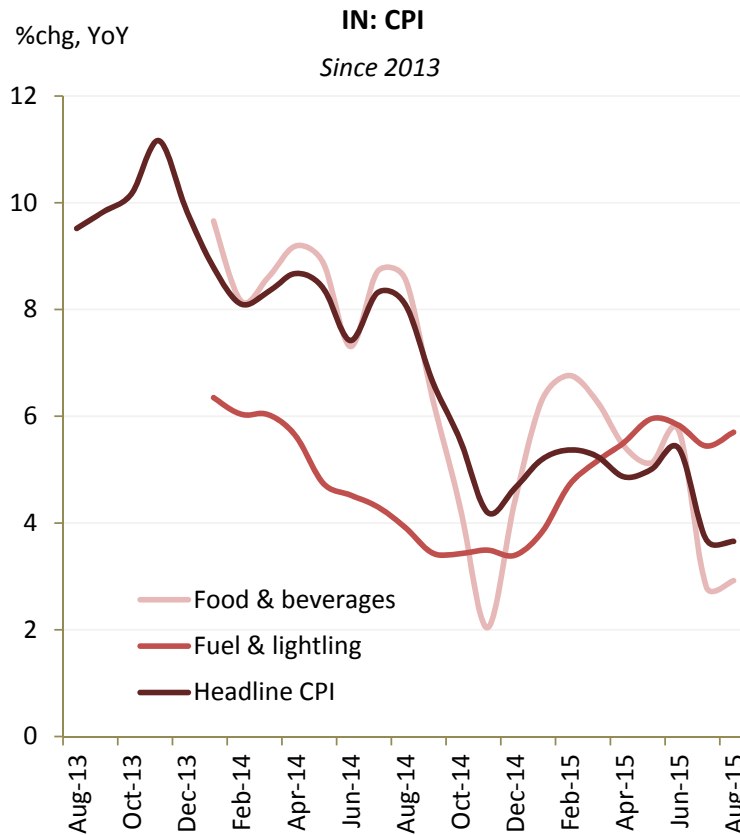
IN: Contribution to WPI
As of August, 2015



Source: Asiya Research on DataStream, 2015.

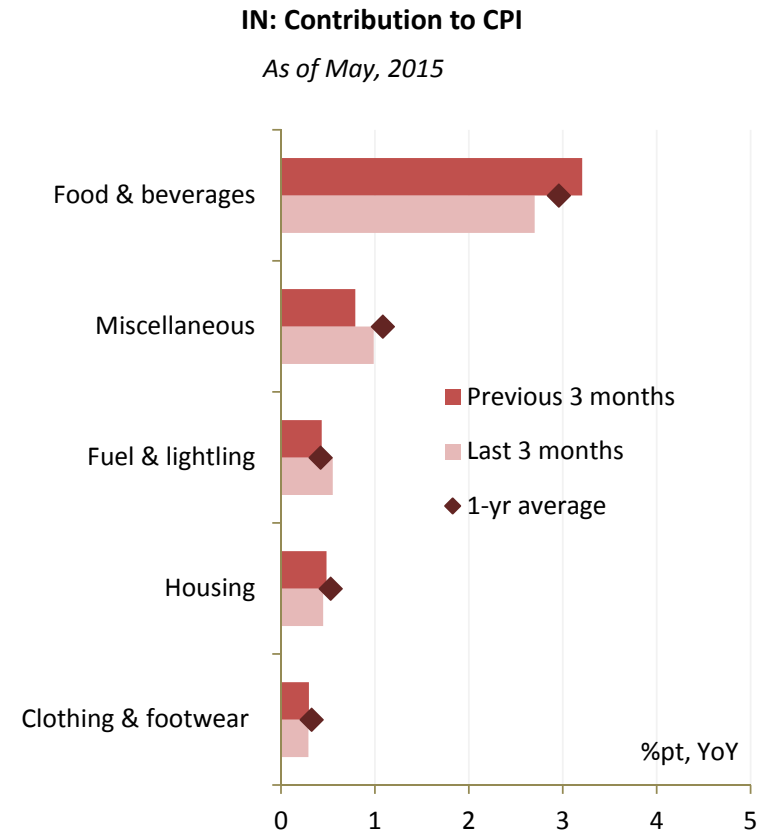
India: headline inflation remained at historically low levels

Headline CPI inflation remained at low levels...



Source: Asiya Research on DataStream, 2015.

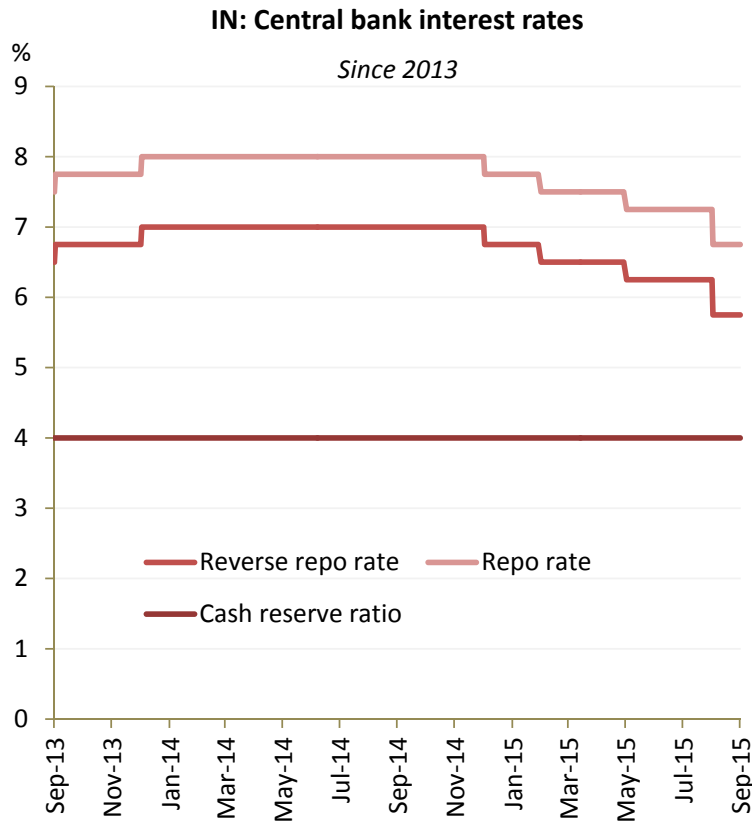
... but food prices picked up slightly.



Source: Asiya Research on Ministry of Statistics India, 2015.

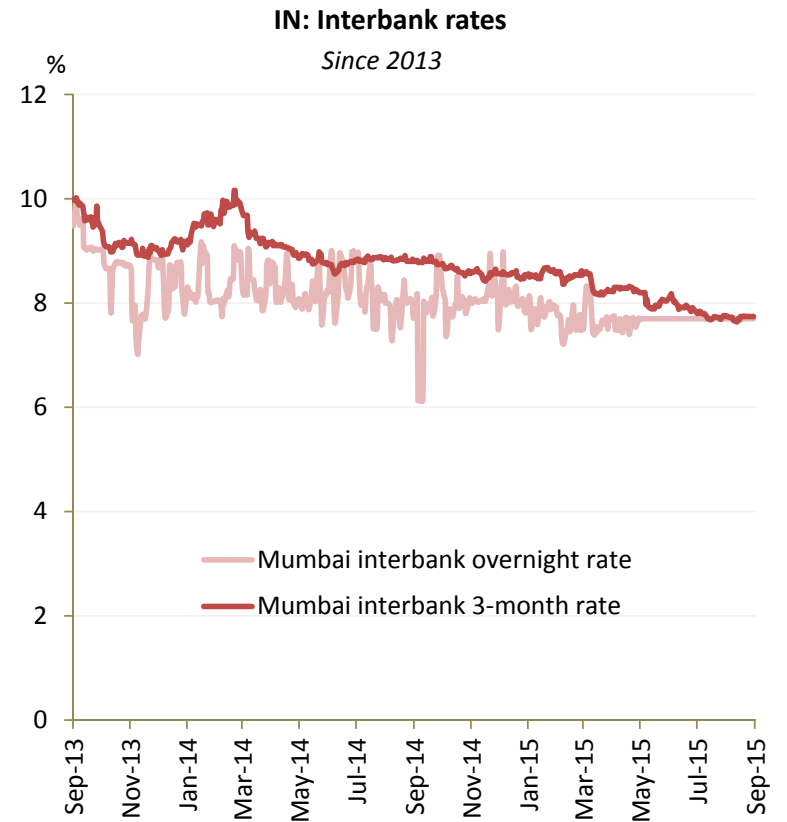
India: RBI cut interest rates towards end of Q3

RBI cut rates recently.



Source: Asiya Research on Reserve Bank of India, 2015.

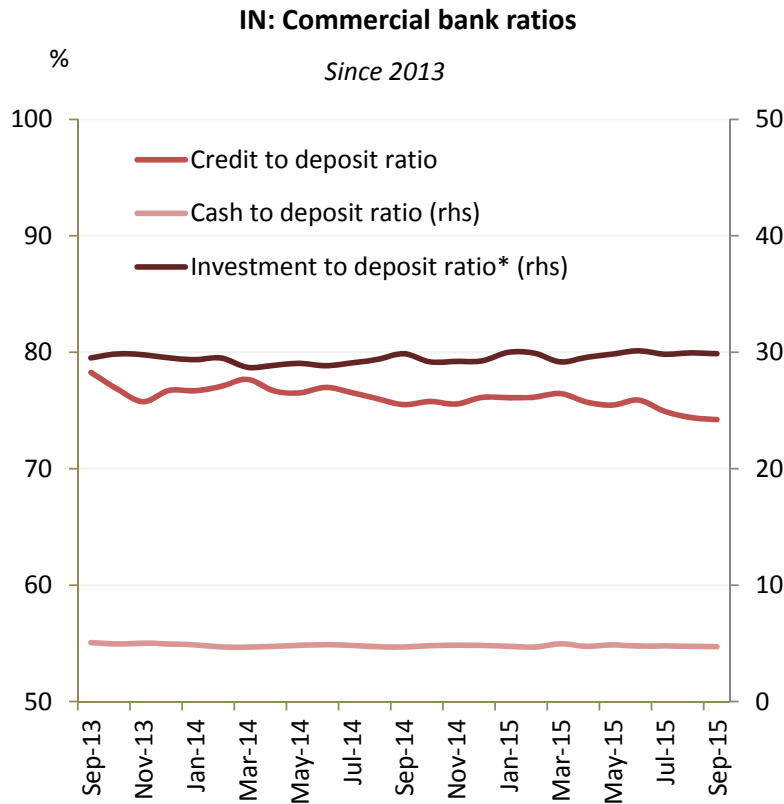
Fall in interbank rates stabilized .



Source: Asiya Research on Thomson Reuters, 2015.

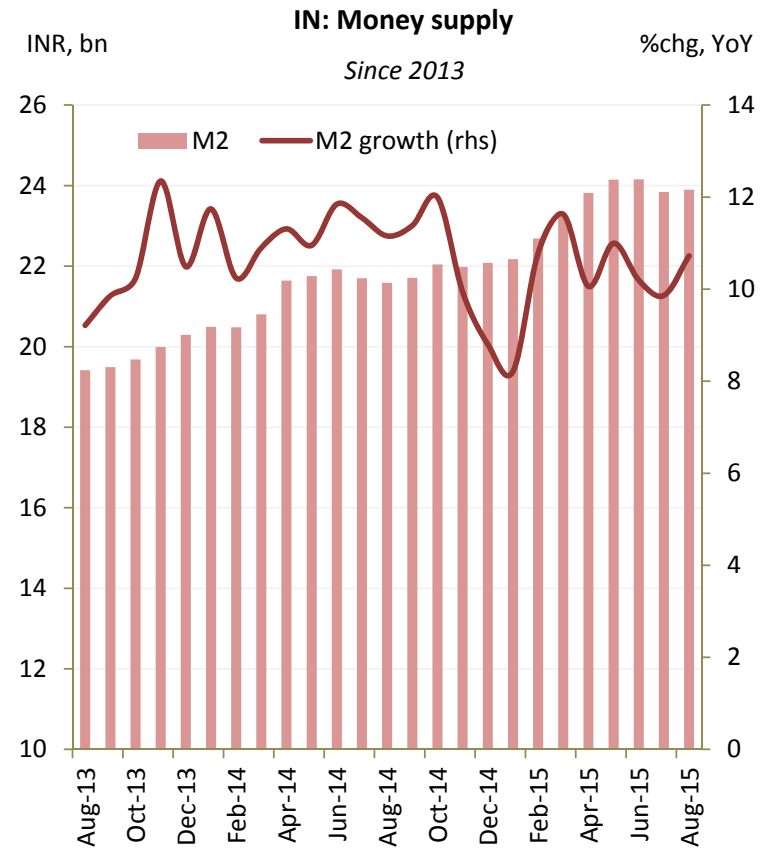
India: liquidity levels remained unchanged from the previous months

Loan-to-deposit ratio fell recently.



Ratios refer to commercial banks and exclude inter-bank market.
* Investment refers to government and other approved securities.
Source: Asiya Research on Reserve Bank of India, 2015.

Yearly M2 liquidity growth roughly unchanged.

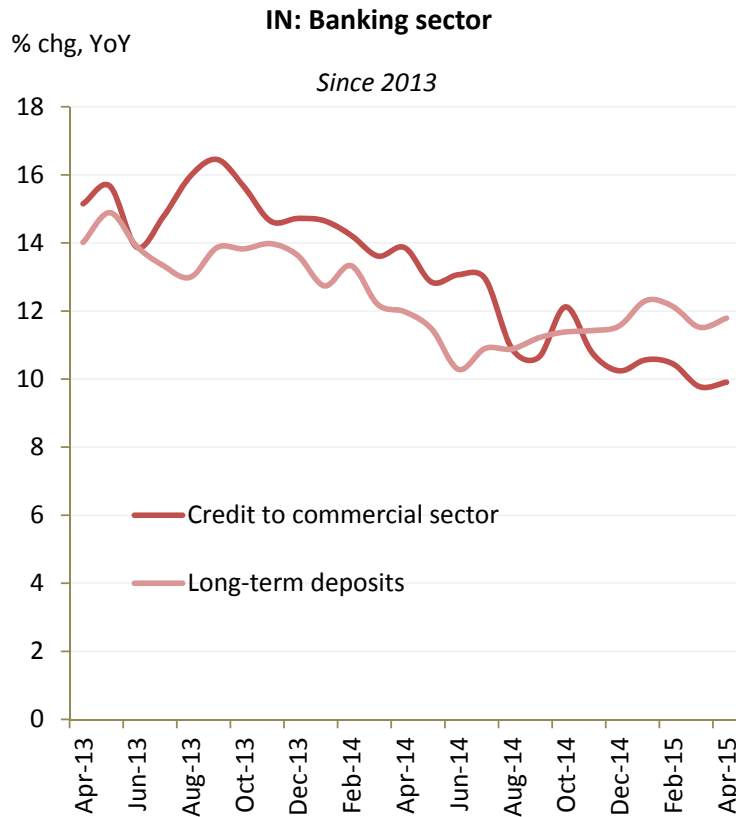


Source: Asiya Research on DataStream, 2015.

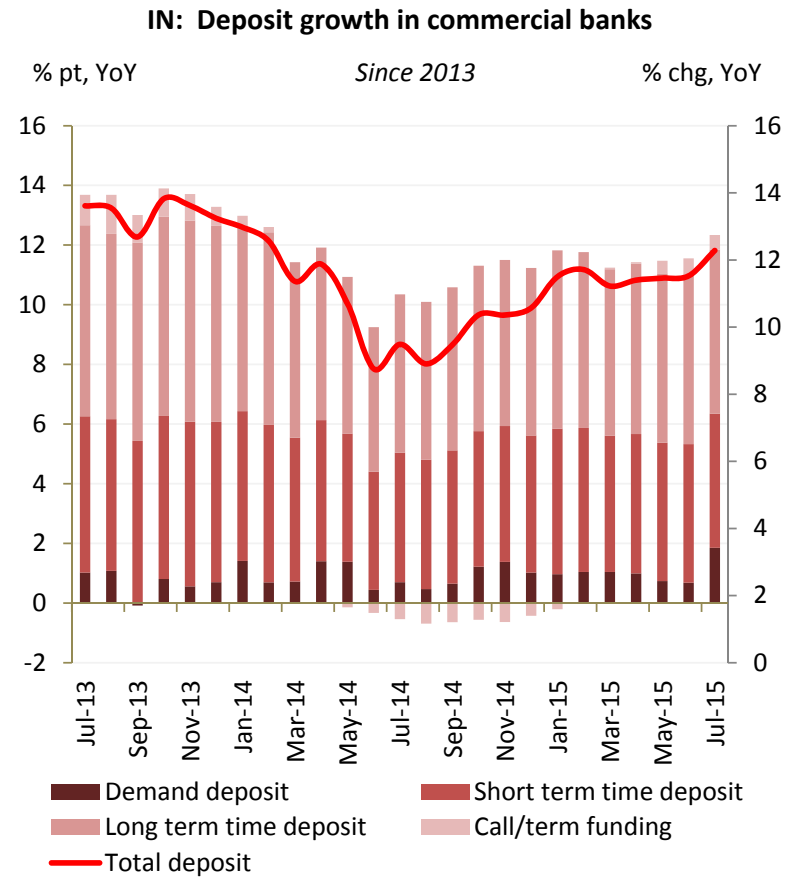
India: deposits of all types registering strong growth rates

Credit growth to commercial sector eased.

But deposits accelerated due to current accounts.



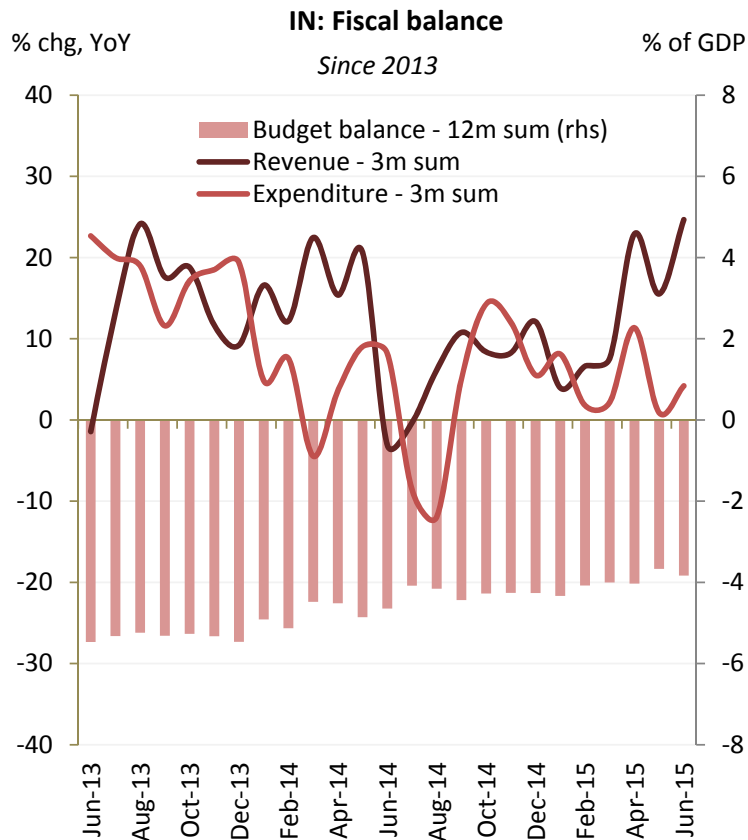
Source: Asiya Research on DataStream, 2015.



Source: Asiya Research on DataStream, 2015.

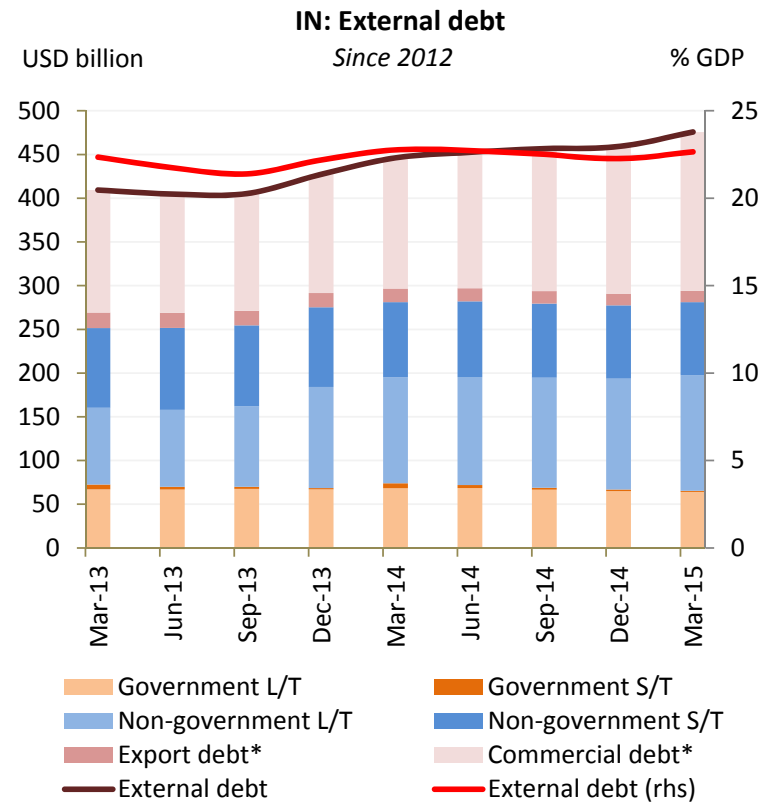
India: India's deficit is persistent, but on a slightly decreasing trend

Revenue picked up sharply, but deficit persisted.



Source: Asiya Research on DataStream, 2015.

External debt rose slightly towards end of 2014.

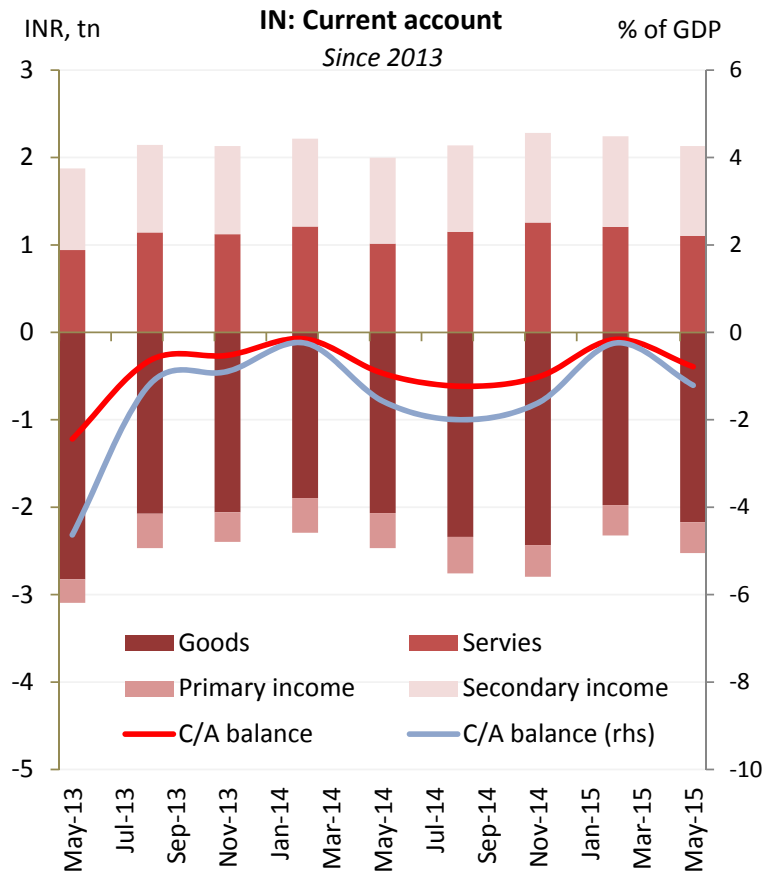


* Include both government & non-government debt

Source: Asiya Research on DataStream, 2015.

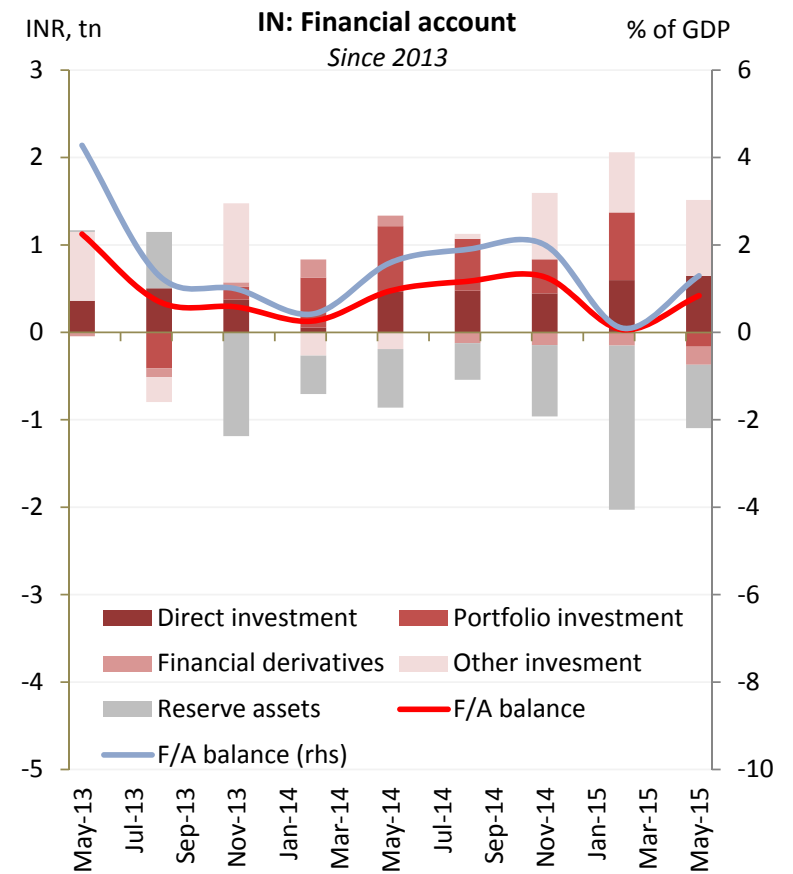
India: both C/A deficit and F/A surplus narrowed

C/A deficit widened on more goods payment outflows.



Source: Asiya Research on Reserve Bank of India, 2015.

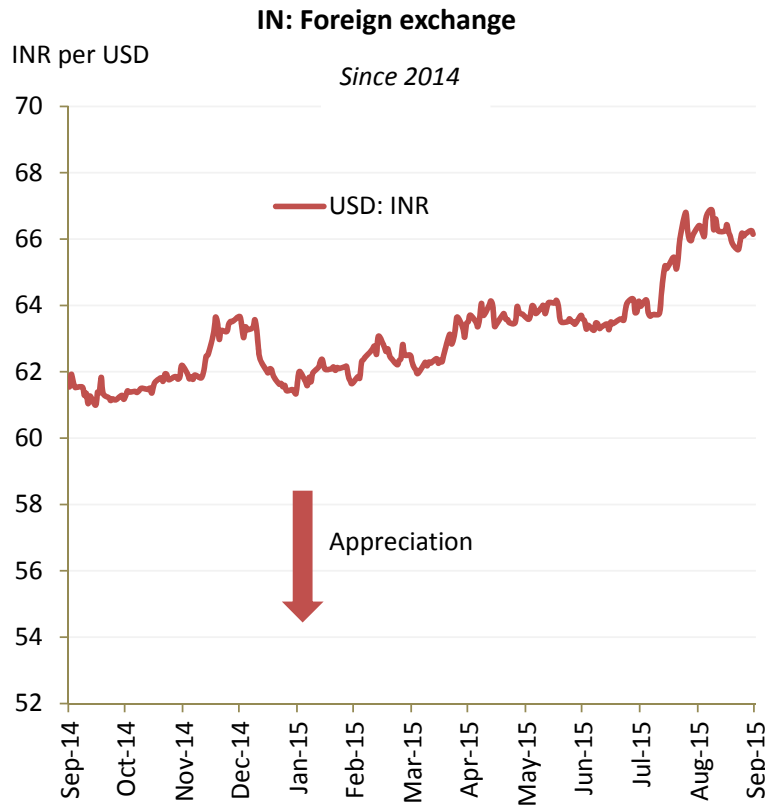
F/A surplus widened on improving reserve assets.



Source: Asiya Research on Reserve Bank of India, 2015.

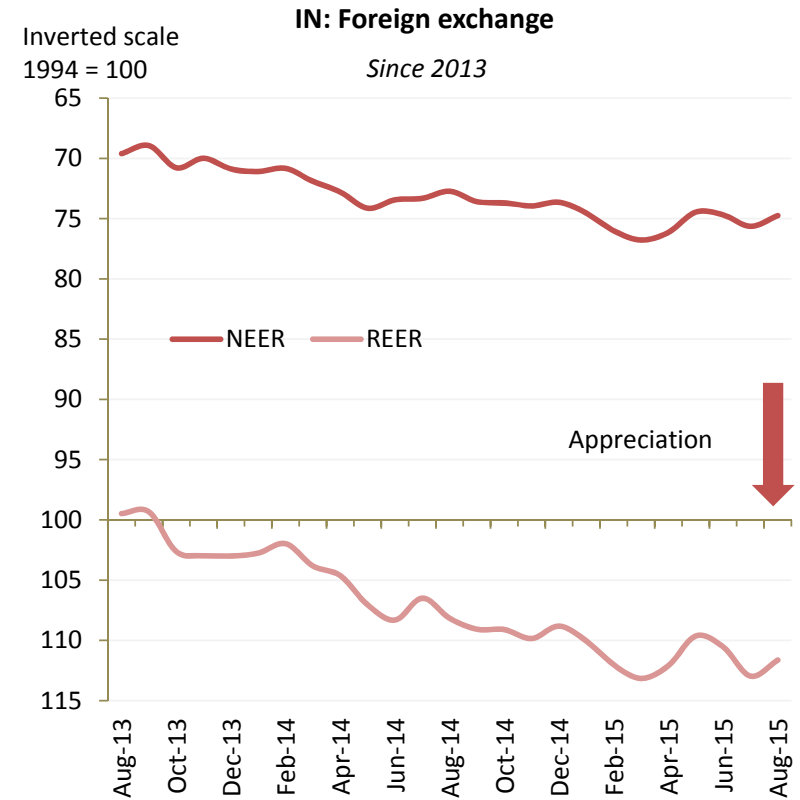
India: rupee depreciated against USD, but unchanged against others

INR depreciated against the USD ...



Source: Asiya Research on DataStream, 2015.

... and remained roughly unchanged against others.



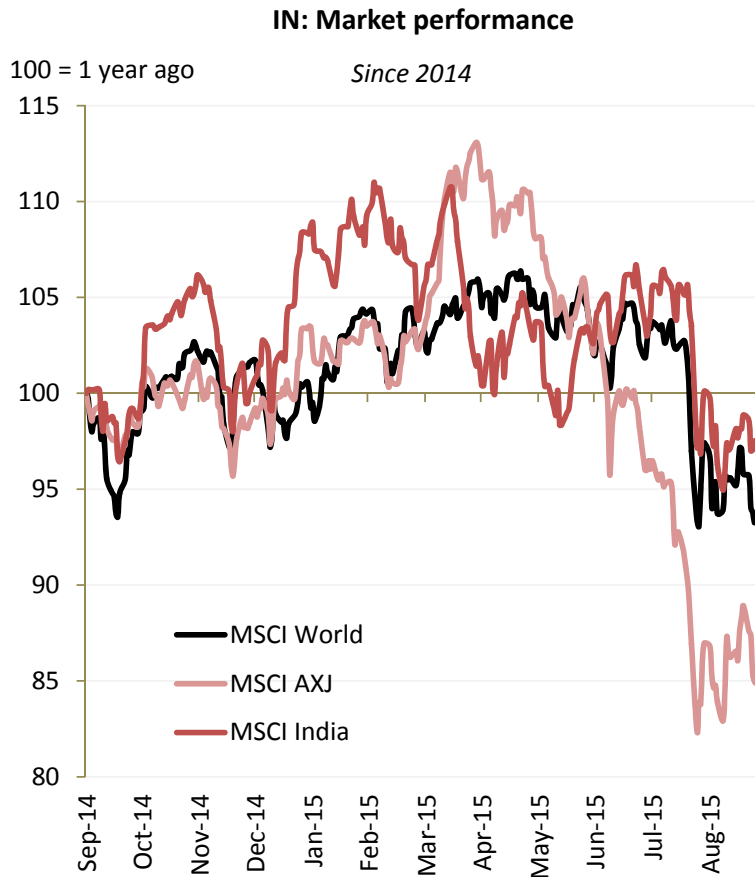
Source: Asiya Research on DataStream, 2015.

Note: The REER is derived from the Trade Weighted USD Index, and calculated as a weighted average of the price of various currencies relative to the USD.

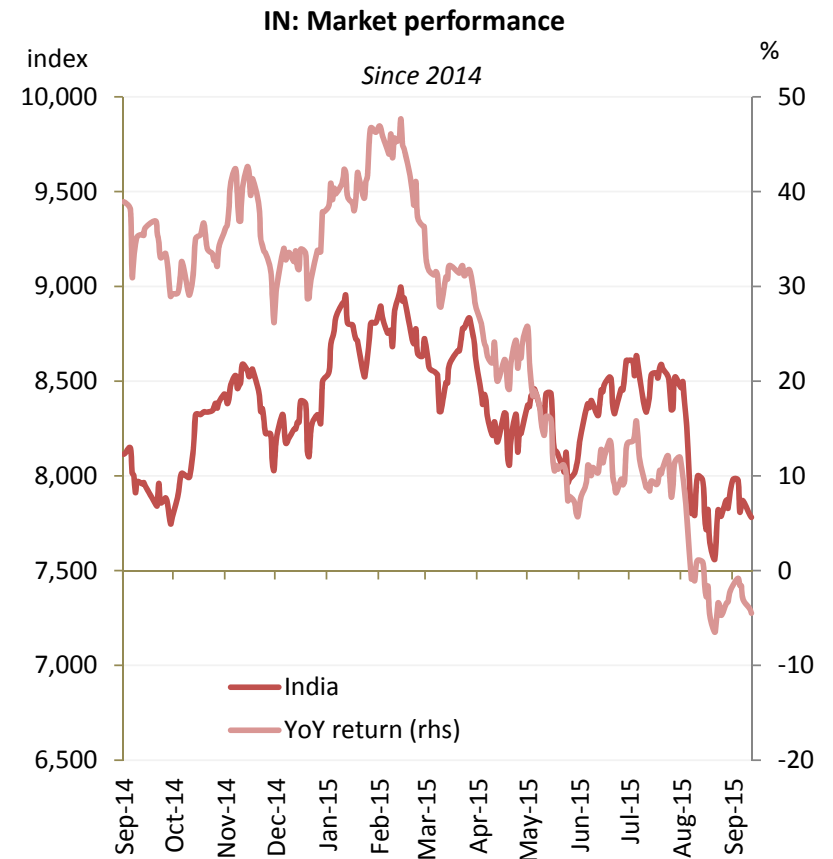
India: market on a downward trend, but better than peers

India's stock market was on a downward trend.

Market YoY returns turned negative recently.



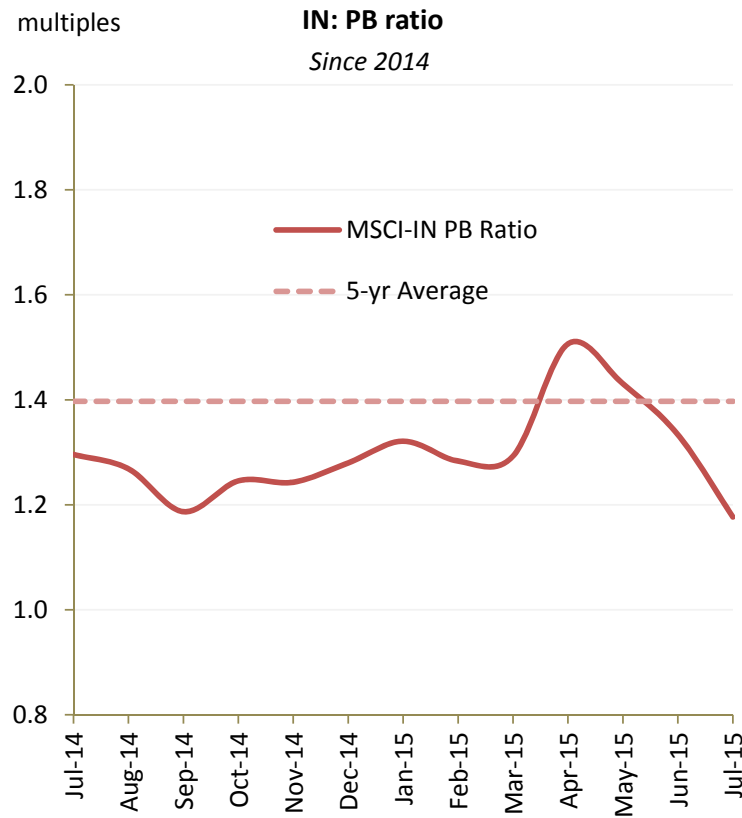
Source: Asiya Research on DataStream, 2015.



Source: Asiya Research on DataStream, 2015.

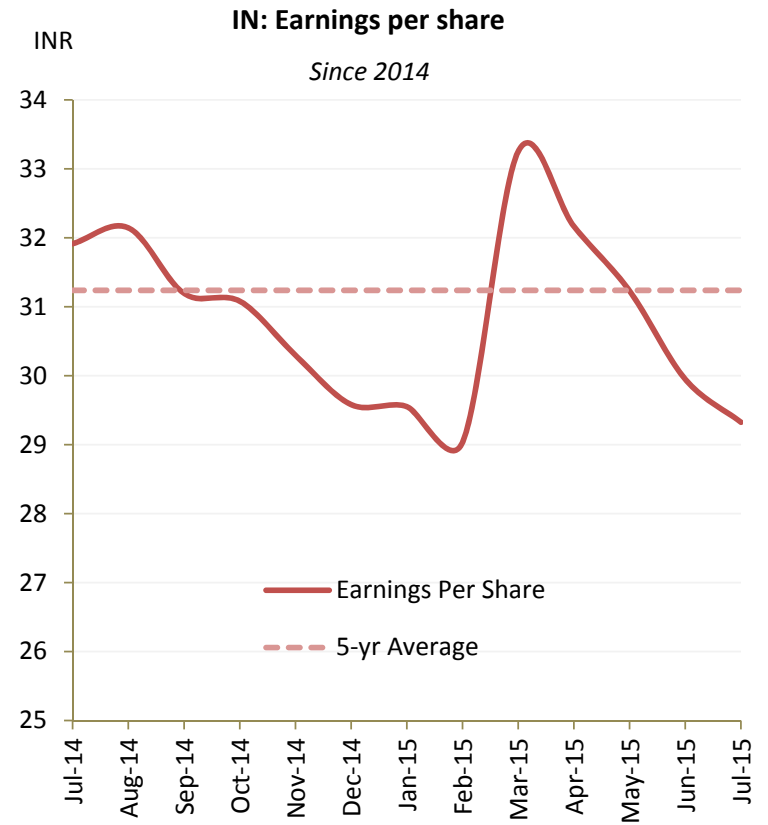
India: PB ratio and EPS both fell below their long-term averages

Price-to-book ratio fell below its 5-year average ...



Source: Asiya Research on DataStream, 2015.

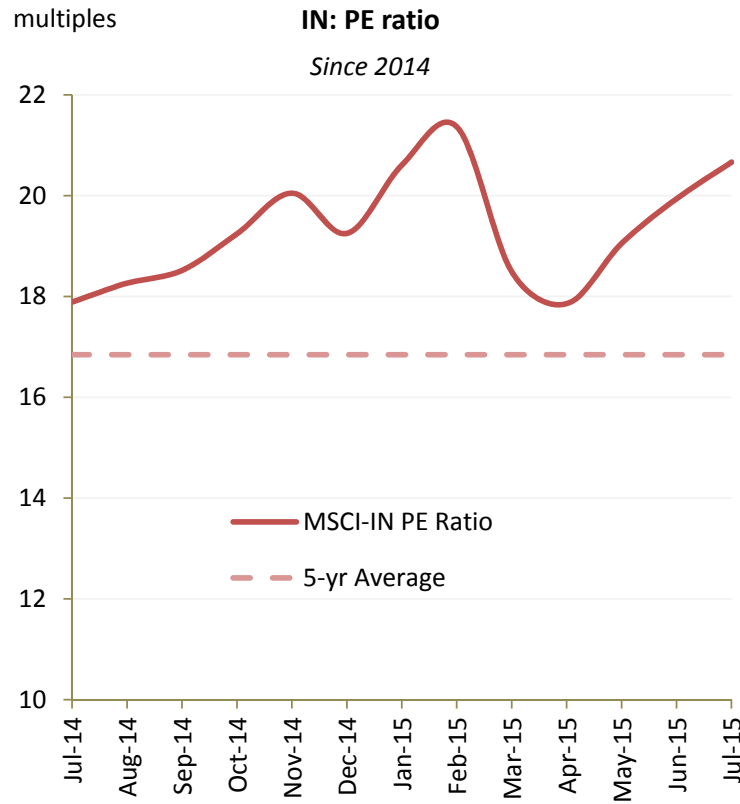
... as well as earnings per share.



Source: Asiya Research on DataStream, 2015.

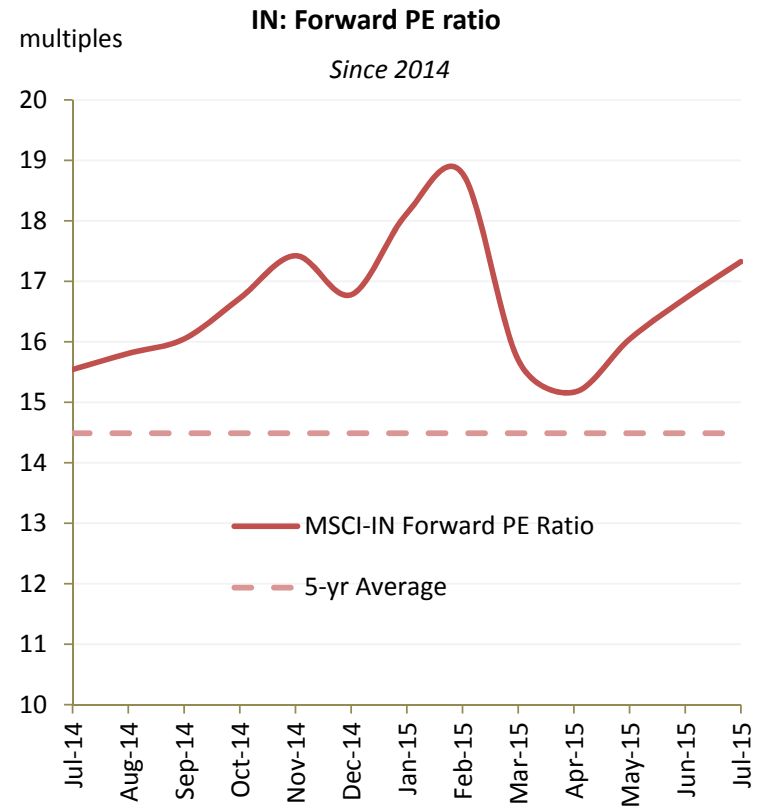
India: falling earnings driving a rise in valuations

PE ratios continued to rise ...



Source: Asiya Research on DataStream, 2015.

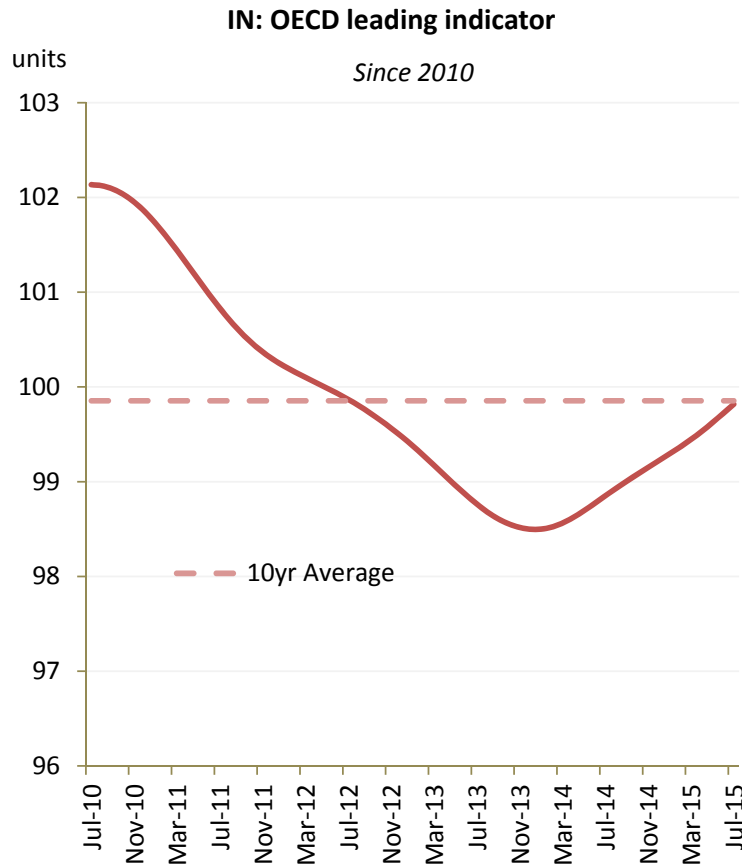
... as well as in terms of forward earnings.



Source: Asiya Research on DataStream, 2015.

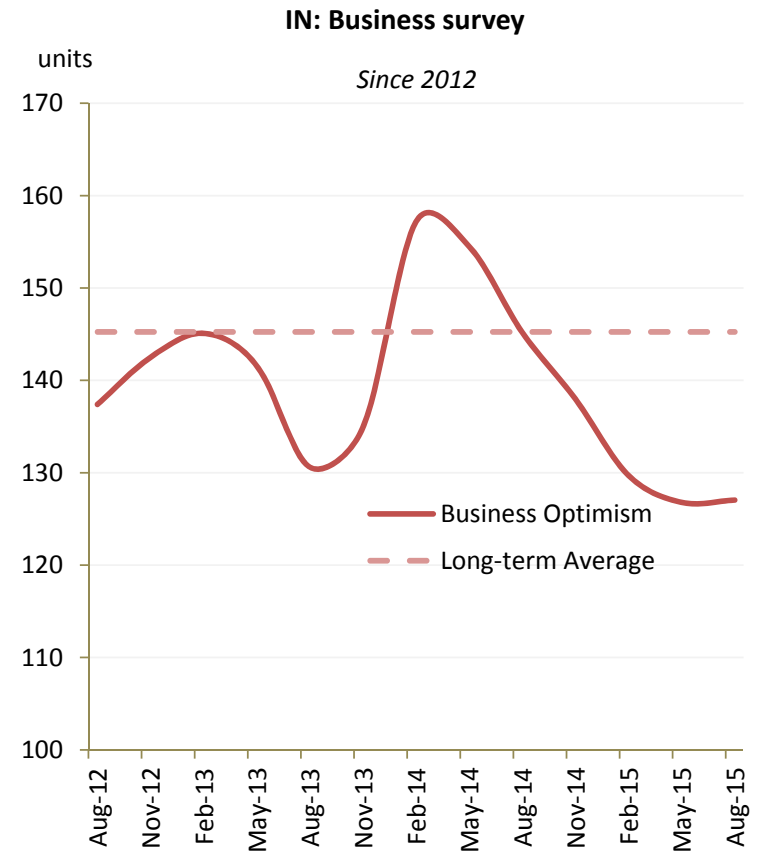
India: leading indicator suggests a pickup ahead

The OECD leading indicator suggests a pickup ahead.



Source: Asiya Research on DataStream, 2015.

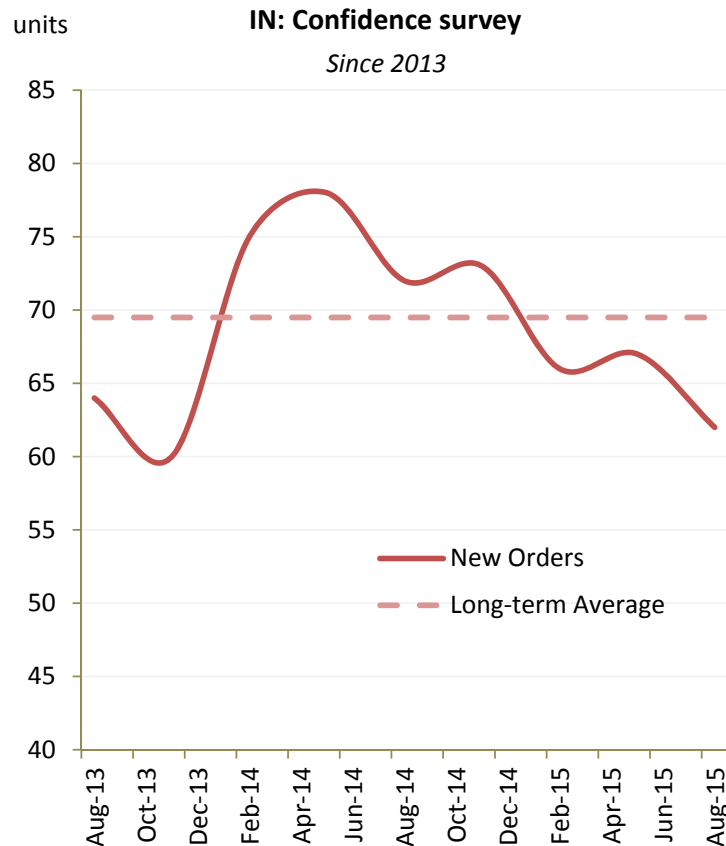
Business sentiment stabilized after fall.



Source: Asiya Research on DataStream, 2015.

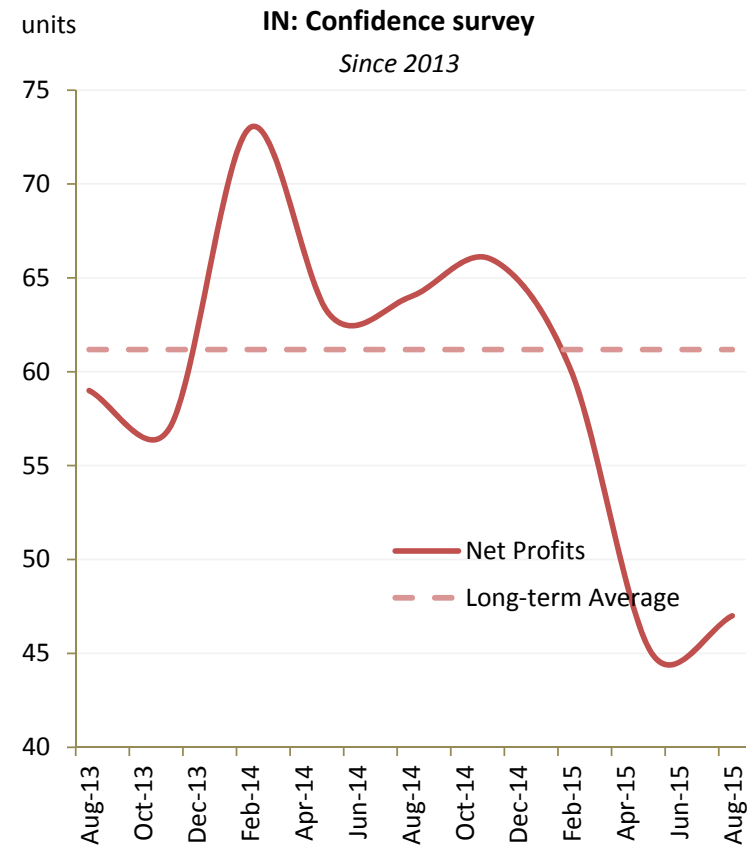
India: sentiment on profit and new orders below long term averages

Survey on new orders continued drop ...



Source: Asiya Research on DataStream, 2015.

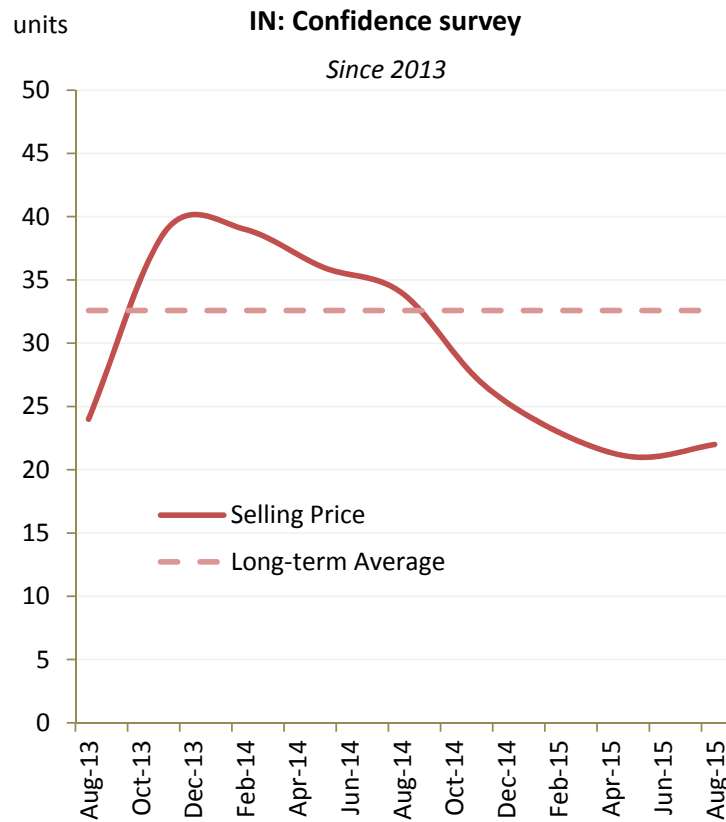
... while profit sentiment picked up slightly after plunge.



Source: Asiya Research on DataStream, 2015.

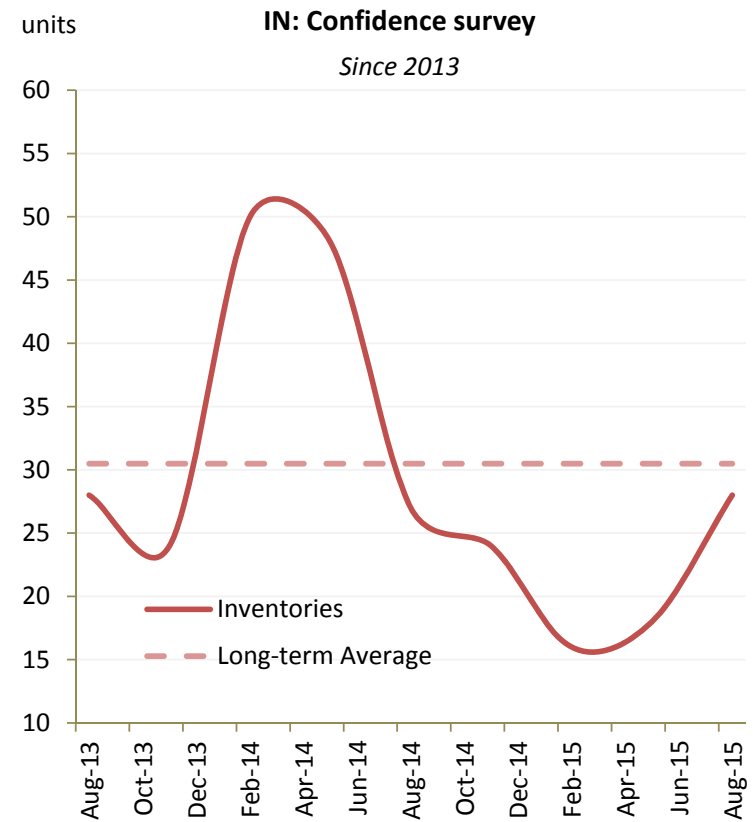
India: prices and inventories are expected to pick up, but still below averages

Sentiment on selling prices picked up slightly.



Source: Asiya Research on DataStream, 2015.

Sentiment on inventory levels also rose.



Source: Asiya Research on DataStream, 2015.

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