Dr. Rupa Rege Nitsure

Group Chief Economist

DISCLAIMER

The views expressed here are personal views of the author and do not necessarily reflect the views, policies and ideology of L&T Finance Holdings Limited ("**LTFHL"**) or any of its subsidiaries or group companies and associate companies (collectively referred to as the **"L&T Group"**).

Nothing contained in this document shall constitute or be deemed to constitute an offer to sell/purchase or as an invitation or solicitation to do so for any securities of any entity. LTFHL and/ or L&T Group make no representation as to the accuracy, completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. LTFHL or L&T Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render LTFHL or L&T Group liable in any manner whatsoever and LTFHL or L&T Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

All opinions and estimates herein, including forecast returns, reflect the judgement of the author on the date of this report and are subject to change without notice and involve a number of assumptions which may not prove valid.

The document (if it) contains forward looking statements which include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis, the said forward looking statements expressed constitute the author's judgement (unless otherwise specified) as of the date of this material. Forward looking statements involve significant elements of subjective judgements and analyses and changes thereto and/or consideration of different or additional factors could have a material impact on the results indicated; therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by LTFHL or L&T Group as to the reasonableness or completeness of such forward looking statements or to any other financial information contained herein.

L&T Finance holdings Limited
Brindavan, Plot No. 177
C. S. T Road, Kalina, Santacruz (E)
Mumbai - 400 098, India

T +91 22 6212 5343
E rupa.nitsure@ltfs.com

1. Global Economic Briefs

- According to the Reuters' poll, new bank loans in China are expected to have surged to a one-year high during January, 2019 as authorities continued to spur banks to extend more credit to cash-strapped companies in a slowing economy.
- China's small businesses are forced to cut back on staff just to survive as economic mood sours amid trade war. With the Chinese economy slowing, concern has increased among Chinese policymakers about the outlook for employment, since ensuring a sufficient number of new jobs is seen as a necessary ingredient in maintaining social stability in the country.
- The IMF has warned governments to gear up for a possible economic storm as growth undershoots expectations. The major risks to global growth include "trade tensions and tariff escalations, financial tightening, uncertainty related to the Brexit outcome & its spillover impact and an accelerated slowdown of the Chinese economy.
- In its quarterly update of forecasts released yesterday, the central bank of Australia – RBA has cut growth and inflation outlook for the nation amid a darkening picture at home and abroad. Its Governor has now abandoned a tightening bias and instead sees the chances for rate cuts or hikes as evenly balanced.
- According to Europe's top-ranked strategy team at Societe Generale SA, global economic growth is being hit more significantly than many anticipate and the calls for an impending US recession now look increasingly credible. Two leading economic indicators point to slower growth for the SocGen team -- the US yield curve, oft-cited as a recession predictor when it becomes inverted, and a less widely used gauge of news sentiment.
- The UK economy lost its growth momentum in Q4, 2018 as growth slowed to just 0.2% in Q4 and contracted by 0.4% in Dec, 2018. Several economists are blaming uncertainty about Britain's exit from the EU for the sharp slowdown in UK growth.

2. Indian Agriculture Scene

- Heavy rains & hailstorms have damaged standing crops in Northwest India. As per the assessment of agriculture ministry officials, the thunderstorms would have a negative impact on mustard, maize & wheat that were still in the flowering stage. However, crops that have passed the flowering & fruiting stages may not be damaged much.
- Like India's Interim Budget, State budgets too are focusing on agriculture & unemployment. The states that have released pro-people budgets that focus on agrarian crisis & unemployment are Madhya Pradesh, Rajasthan, Kerala, Odisha, Andhra Pradesh, Chhattisgarh, Uttar Pradesh, Himachal Pradesh, Jharkhand, Karnataka & West Bengal. These would be in addition to the PM-KISAN scheme under which the Central Government will pay Rs 6,000 to the small & marginal cultivators.
- In its last Monetary Policy announcement, the RBI raised the limit for collateral-free agriculture loans from Rs 1,000 billion to Rs 1,600 billion with an objective of enhancing coverage of small & marginal farmers in the formal credit system.

3. India's Overall Economic & Policy Developments

- While the rating agency Moody's has termed India's inability to meet fiscal deficit targets for four consecutive years as "credit negative", for the Fitch ratings longer term fiscal trends are more important from the

L&T Finance holdings Limited
Brindavan, Plot No. 177
C. S. T Road, Kalina, Santacruz (E)
Mumbai - 400 098, India

T +91 22 6212 5343
E rupa.nitsure@ltfs.com

perspective of sovereign rating profile and it would like to evaluate these post the full budget, which should provide additional guidance on the medium-term outlook.

- India's government has collected Rs 7.9 trillion from direct taxes during Apr, 2018 – Jan, 2019. The direct taxes had yielded nearly Rs 10 trillion to the exchequer in the entire year FY18.
- The asset under management of India's mutual fund industry at the end of Dec, 2018 totalled Rs 23.37 trillion, up 2% compared to the previous month, as per data released by AMFI on Feb 11th.
- India's industrial production growth remained muted at 2.4% in Dece, 2018 (versus our & consensus forecast at 1.6%) due to contracting production of mining, primary & intermediate goods. India's headline CPI further eased to 2.1% in Jan, 2019 (versus our forecast at 2.1%, consensus at 2.5%) on continued deflation in food articles' prices & further easing in fuel & housing inflation. Core inflation has also eased due to weakness in aggregate demand.
- According to RBI, Indian banks loans and deposits rose at the pace of 14.6% and 9.7% on year respectively, as on Jan 18, 2019. While outstanding loans decreased by Rs 57.6 billion to Rs 93.32 trillion in the two weeks to Jan 18, aggregate deposits fell by Rs 473 billion to Rs 119.86 trillion. The average Credit-Deposit ratio slightly increased to 77.85% as on Jan 18 from 77.59 on Jan 4th.
- India's Broad Money Supply, i.e., M3 growth was at 10.4% (y-o-y), as on Jan 18, 2018 (same as a year ago). "Bank credit to commercial sector" and "banking sector's net non-monetary liabilities" are the primary drivers of M3 growth this year.
- India's "foreign exchange reserves" increased by $2.06 billion to $400.24 billion as on Feb 1st, 2018. The reserves crossed the mark of $400 billion after a period of around five months. Senior analysts are attributing this increase to RBI's dollar purchases to augment reserves.

4. India's Industrial & Services Sectors Scenario

- The rating agency India Ratings and its research outfit Ind-Ra have on Feb 11th maintained a stable outlook for all the infrastructure sectors of India, barring thermal power, for the financial year FY20.
- According to a joint study by ASSOCHAM-Grant Thornton, thermal power projects worth Rs 2.5 trillion are facing stress in India and immediate remedial measures need to be undertaken to ensure that they are revived in a time-bound manner. The study also noted that the country's power sector has been one of the highly stressed sectors in recent times, with loans worth approximately Rs 1 trillion having turned bad or been recast.
- India's crude oil production declined 3.7% to 25,938 thousand tones during Apr-Dec, 2018, which has increased the nation's import dependence to 83.4% during this period as compared to 82.8% in the corresponding period of 2017.
- Indian cotton yarn exports are facing headwinds due to imposition of duties. As a result, India is falling behind competitors such as Bangladesh, Vietnam, Pakistan, etc. in terms of cotton exports.
- According to Fitch ratings, auto loans in India are likely to face downside risks due to slower growth of India's economy. Furthermore, significant currency depreciation would increase fuel prices in India, which in turn, would hurt operating margins of truck owners as higher costs will not be passed on to consumers.

L&T Finance holdings Limited
Brindavan, Plot No. 177
C. S. T Road, Kalina, Santacruz (E)
Mumbai - 400 098, India

T +91 22 6212 5343
E rupa.nitsure@ltfs.com

5. Indian Money Market

- Currently, liquidity in the banking system is estimated to be in deficit of around Rs 1 trillion against yesterday's level of Rs 850-900 billion. The deficit has widened because of huge outflows to the government and outflows on account of excise tax payments last week.
- However, call rate has fallen below RBI's repo rate as demand for funds has eased.
- The rates on one-month, six-month & one-year CPs for NBFCs have eased by 130 bps, 90 bps & 50 bps from their levels on 1st Oct, 2018.
- While the cost of long-term borrowings still remains on the higher side for NBFCs, the stress tests conducted by Ind-Ra for the standalone higher rated NBFCs shows reasonable resilience in the event of short-term liquidity tightness and a spike in delinquencies. According to Ind-Ra, the stress case equity buffers would largely remain comfortable in such a scenario.

6. Indian gilts seen up

- Indian government bond prices moved up yesterday as a significant easing of headline CPI – the nominal anchor of monetary policy has increased hopes of further rate cuts by the RBI. Moreover, core inflation too fell by 30 bps sequentially reflecting continued weakness in demand.
- However, higher market borrowings in the current and next financial years kept further gains in check.
- Bond dealers are seeing government bond prices consolidating at current levels and many are booking profits too.
- The focus of investors is on "churning of portfolios" rather than adding excess holdings.

7. Positive momentum seen in INR

- Weakness in dollar index and some positive developments on domestic policy front have improved the outlook for rupee-dollar exchange rate which is hovering ~70.80 today versus ~72 two months ago.
- Government of India's decision to sell 3% stake in Axis bank through SUUTI to boost its revenues and the NCLT's decision to protect the integrity of SPVs have improved the confidence of investors. Moreover, Brent prices have declined from their monthly average of $82.7 per barrel in Sept, 2018 to $63.4 in Feb, 2019, which, in turn, has reduced the nervousness of international investors.
- Forex experts see INR ~70.50 by end-February, 2019 despite elections related uncertainty.

8. Indian stocks to stay volatile

- The huge sell off in certain large cap stocks on concerns over corporate mis-goverance has increased the degree of nervousness in Indian equity markets.
- There is a constant fear among investors that more companies will come out with such issues.
- So far in Feb, 2019 domestic institutional investors have net bought shares worth a mere Rs 3.5 billion reflective of low appetite for equities.
- While market participants should take some comfort from the progress seen in trade negotiations between the US & China, domestic concerns and election –related uncertainty will increase volatility in stocks in the coming months.

L&T Finance holdings Limited
Brindavan, Plot No. 177
C. S. T Road, Kalina, Santacruz (E)
Mumbai - 400 098, India

T +91 22 6212 5343
E rupa.nitsure@ltfs.com

9. **Brent Crude at $63.30 per bbl on Feb 13, 2019**

- Brent oil prices rose today, after top exporter Saudi Arabia said it would cut crude exports and deliver an even deeper cut to its production.
- However, a likely slowdown in the world economy and good supplies in the global market are not letting oil prices increase alarmingly. According to the IEA, "the global oil market remains well supplied and oil output would still likely outstrip demand this year, despite OPEC's efforts and US sanctions on Iran and Venezuela".

L&T Finance holdings Limited
Brindavan, Plot No. 177
C. S. T Road, Kalina, Santacruz (E)
Mumbai - 400 098, India

T +91 22 6212 5343
E rupa.nitsure@ltfs.com