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India Notes

India's Economy Likely To Expand 8.2% This Fiscal Year as per an independent survey

As per a survey of professional forecasters carried out by the Reserve Bank of India, India's economy is likely to grow at 8.2% in the current fiscal year, starting April 1 2010. This projection is higher than the 7.9% estimate in the previous survey carried out by the Reserve Bank of India.

Gross domestic product is expected to grow by 8.1% in the April-June quarter, up from 7.9% estimated earlier.

2010 southwest monsoon seen normal: Met Dept

The Indian Meteorological Department expects the 2010 southwest monsoon rains to be normal at 98% of the long period average. The long period average of June-September rainfall is 89 cm.

Real Estate revival gains strength

Commercial market bouncing back — 6-month transactions are showing signs of demand pick-up in the office segment. Demand, which was initially led by telecom and pharma, has now been reinforced by improving conditions in the IT/ITES space and BFSI sectors along with overall positive perception about economic recovery. This recovery is cascading into the retail space as well, albeit slowly. However, rental expectations continue to remain under check given the supply pipeline.

Upcoming supply stays an overhang — JLLM says that ~60.9 msf of office space is expected to become operational in NCR, Mumbai, Bangalore, Chennai, Pune, Kolkata and Hyderabad during 2010, with ~74% expected to come from the former 4-cities.

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Economy & Markets

India's Economy Likely To Expand 8.2% This Fiscal Year – Survey

As per a survey of professional forecasters carried out by the Reserve Bank of India, India's economy is likely to grow at 8.2% in the current fiscal year, starting April 1 2010. This projection is higher than the 7.9% estimate in the previous survey carried out by the Reserve Bank of India. The RBI surveys professional forecasters every quarter on their expectations about the economy. Twenty-four forecasters participated in the latest survey.

RBI said that the higher growth projection was on the back of increased private consumption and stronger industrial activity. Gross domestic product is expected to increase 8.1% in the April-June period, up from 7.9% estimated earlier. India's economy emerged relatively unscathed from the global financial crisis and is the second-fastest growing major economy in the world. The RBI expects an 8% expansion in the economy while the federal government is more optimistic, projecting an 8.5% growth in the current fiscal year.

Industrial activity has increased mainly due to strong domestic demand, rising 15.1% from a year earlier in February. The survey also showed that forecasters expect inflation at 9.5% in the April-June period, up from 7.4% projected in the previous survey.

India’s Economy probably expanded at fastest pace since 2007

According to Kaushik Basu, the Chief Economic Advisor in the Finance Ministry, India’s economy probably expanded at the fastest pace since 2007 in the last quarter of year ended March 2010, adding to evidence of growing consumer demand. Gross domestic product may have grown 8.6 percent last quarter, the most since December 2007.

Business at Indian service companies rebounded to a 21-month-high in April on new business and high input prices, a survey shows, indicating it could more than make up for a dip industrial activity. The HSBC Markit Business Activity Index, based on a survey of 400 firms, rose to 62.1 in April, it’s highest since July 2008, and compared to 58.1 in March.

Services industry has expanded robustly since the middle of last year. The month-on-month increase in April has been the strongest since April 2008. According to Robert Prior-Wandesforde, senior regional economist at HSBC in Singapore this data suggests that a modest slowdown in industrial activity indicated by the last couple of manufacturing PMIs has been more than offset by a pickup in service sector activity.

He further mentioned that the GDP growth looks set to strengthen and he wouldn't rule out a quarter or two of double-digit gains in the economy as a whole. The survey showed the increase was due to higher wages, as well as increased fuel and raw material prices and a steady uptick in new business. Manufacturing in April dipped slightly from the previous month but figures still signaled significant strength reaffirming the double-digit gains in industrial output in recent months. The services index has expanded for the twelfth month in April. The 50 point level separates expansion from contraction. The employment index rose to its highest in 20 months. All the comprising indices saw an increase this month with the business expectations sub-index rising to 72.6 from 70.3 in March due to favourable economic conditions and expansions into new markets, according to the survey.

Prior-Wandesforde however mentioned that such strength is not sustainable and would bring with it capacity constraints and higher cost/price pressures.

IIP: Healthy numbers

As per official data, India's industrial output in February grew at a slower rate of 15.1 percent compared to 16.7% growth in January 2010. As per the data released by Central Statistical Organization, the index of industrial production (IIP), which measures factory output, stood at 10.1 percent during April 2009-February 2010 against 3 percent in the same period in 2008-09.

While basic goods grew 8.4 percent during the period under review, capital goods grew 44.4 percent. Consumer durables and consumer non-durables recorded growth of 29.9 percent and 2.3 percent respectively. Manufacturing rose 16 percent from a year earlier while electricity output grew 6.7 percent. Mining output went up 12.2 percent.

India's annual rate of in inflation in February stood at 9.89 percent.

The Annual Policy Review 2010-2011

The Indian economy is expected to grow around 8.0 per cent in FY11 with the negative impact of monetary tightening not becoming visible before Q4FY11. The average wholesale price index (WPI) inflation for FY11 is expected to be around 6.5-7.0 per cent, significantly higher than the average of around 5 per cent during the last decade (2000-09). Although WPI inflation is likely to moderate during the second-half of the year, it would nonetheless remain above the RBI's comfort zone of 5.0-5.5 per cent even in March-2011.

Rising asset prices, especially real estate prices in certain locations would continue pose a challenge for the policy-makers as capital inflows in the sector are expected to increase further in FY11. While inflationary pressures warrant a tighter monetary regime than announced in the annual policy, the large government borrowing programme with the fresh issuance of government securities around 36% higher than last year has constrained the central bank's ability to fight inflation.

The policy also introduced regulatory changes relating to the classification of infrastructure bonds, whereby banks are allowed to classify their investments in non-SLR bonds issued by infrastructure companies and having a minimum residual maturity of seven years under the held to maturity (HTM) category would incentivize banks to invest in such bonds.

Highlights of the Policy

Repo rate and reverse repo rate raised by 25 bps to 5.25 and 3.75 per cent, respectively with immediate effect.

Cash reserve ratio (CRR) increased by 25 bps to 6.0 per cent with effect from April 24, 2010; move expected to absorb about € 2 bn (Rs 125 billion) of liquidity.

Real gross domestic product (GDP) growth is forecast at 8.0 per cent for FY11 with an upward bias. Growth in FY10 to settle between 7.2 per cent and 7.5 per cent.

The wholesale price index (WPI) inflation projection for end-March 2011 placed at 5.5 per cent.

Money supply is projected to grow at 17.0 per cent in FY11, from 16.8 per cent posted in FY10.

Non-food credit and aggregate deposits growth projected at 20.0 and 18.0 per cent, respectively for FY11.

Interest rate futures to be introduced on 5-year, 2-year notional coupon-bearing securities and 91-day treasury bills, apart from the existing 10-year bond.

Banks to be allowed to classify their investments in non-SLR bonds issued by infrastructure companies under the held-to-maturity (HTM) category.

Infrastructure loan accounts classified as sub-standard to attract a provisioning of 15.0 per cent instead of the current 20.0 per cent.

Banks mandated not to insist on collateral security in case of loans up to €17,000 (Rs 1 million) as against the current limit of €8,500 (Rs 0.5 million) for all units of the micro and small enterprises (MSEs) sector.

To introduce a reporting platform for all secondary market transactions in certificates of deposit (CDs) and commercial papers (CPs).

To allow recognised stock-exchanges to introduce plain vanilla currency options on spot US$/Rs exchange rate for residents.

2010 southwest monsoon seen normal: Met Dept

As per the Meteorological Department, the 2010 southwest monsoon rains are expected to be at 98% of the long period average. The long period average of June-September rainfall is 89 cm. The conviction of a normal monsoon was reiterated by the government, allaying fears over an event crucial to the economic fate of the world's second-most populous nation.

Earlier, weather scientists from the United States and Britain said normal monsoon rains were likely in India, but a Japanese forecaster had said the seasonal rains would be weak this year. Success or failure of the annual summer southwest monsoon fixes the fate of the farm-dependent economy.

Surge in India's Foreign Trade

India's exports accelerated to expand 54% YoY in March 2010 (after rising 35% YoY in February), but imports surged by 67% YoY in March (unchanged from the pace of growth in February) as domestic demand remained vibrant. The stronger export performance enabled the trade deficit for March to narrow slightly to US$7.8bn (from February's US$9bn). For FY2009/10 (April 2009-March 2010), exports declined 4.7% YoY, while imports contracted 8.2% YoY (with the export decline confined to the first half of the fiscal year, and imports declining through the first three quarters) – and the trade deficit moderated slightly to US$102bn in FY09/10 (from US$118bn in FY08/09).

Auto sales continue to be robust in April 2010

Indian car makers began the new financial year on a strong footing with double digit sales volume growth in April '10, backed by robust demand and as yet attractive borrowing rates. Car sales grew despite price increase of up to Rs 10,000, effective April 1, by several car makers following an increase in input costs and introduction of new emission norms.

The sales numbers also dispelled concerns that the high auto sales growth will moderate after March as consumers pre-purchased vehicles in the previous quarter anticipating price increase. Almost all the manufacturers carried on the momentum of record sales achieved consecutively in February and March.

Real Estate

Revival of big ticket land deals in Mumbai....but marked by caution

The first two-and-a half months of 2010 have seen closure of land deals worth €681 million (Rs 40 bn). the largest being the bid to develop a 250-acre plot in Kharghar (Navi Mumbai) for €260 million (Rs 15.3 bn) (won by a consortium of Bhushan Steel and Subhash Chandra's Essel Group). The others prominent deals were the €97 million (Rs 5.71 bn) deal by the Wadhwa group to buy 18.18 acres in the Ghatkopar suburb from Hindustan Compositeand the €100 million (Rs 5.91 bn) deal by Sheth Developers to buy Golden Tobacco Company's property in Vile Parle.

A number of other mega-deals are expected during the year including auction of lands by government agencies like the Railway Land Authority (RLDA), National Textile Corporation (NTC) and Mumbai Metropolitan Region Development Authority (MMRDA). Jet Airways is also looking to close a deal to sell the land it bought for €140 million (Rs 8.26 bn) in an auction in Bandra Kurla Complex in 2008.

RLDA (the nodal agency for developing surplus land of Indian Railways), is starting April planning to raise around €766 million (Rs45bn) from selling 25 sites covering 172 acres. They have received 20 requests for qualification (RFQ) from well-known developers for its plot in Delhi and 14 expressions of interest (EoI) for its Bandra land in Mumbai. NTC is also planning to sell two or three more defunct Mumbai mills to developers.

Most land buyers in Mumbai are planning to build premium residential apartments to make the most of their expensive investments. Vijay Wadhwa, promoter of Wadhwa group has launched 1.6msf of luxury residential space in the Ghatkopar property and Sheth Developers is planning premium residential apartments in Vile Parle. DLF is also said to have recently changed its plans from commercial to residential and is now building a high-end residential complex in Lower Parel on its 17-acres mill land (acquired in NTC mill land auction in 2005 for €119 million (Rs 7.02 bn)). However, this time, the revival in land deals is marked with caution – evidence being MMRDA's recent land auction where no developers turned up because the agency's quoted a price of €5100 (Rs0.3mn) per square metre which was considered too high.

Home prices up most in cities...trend to impact Volumes

Residential property prices across India rose considerably in H2 2009, as healthy absorption rates and positive buyer and investor confidence kept demand growing. In a 13-city study conducted by property consultants Mumbai, Thane and Navi Mumbai experienced the maximum price hikes in the affordable, mid- and premium-housing segment; the hikes being 30% in affordable housing, 15% in premium segment and about 11% in mid-income. The average price hike in the region was over 20%, as there was a strong recovery in volumes in the first half. Hikes have been higher in completed projects than in new ones.

Overall across India too, affordable housing witnessed the maximum price appreciation, followed by premium housing and mid-segment housing. In NCR, the prices remained stable on account of the large number of launches and heavy competition – DLF recently priced its phase-III of housing project in Delhi 60% higher than its phase-II on increased buyer confidence; Gurgaon's premium housing experienced 20% price hike as the IT and BPO job scenario in the region improved. In Bangalore, Chennai and Hyderabad, prices remained largely stable – with Chennai witnessing a 6% price hike.

Developers in 2009 were focusing only on affordable housing to play with volumes, but have recently started launching luxury projects in a phased manner. Gurgaon and Noida have seen launches of more than34msf in Jan-Sept 2009. Most brokers, estate agents believe that if the price appreciation continues with the trend as recorded over H2 2009, it may have negative implications on the off-take in the residential real estate market

Signs of Pick-Up in the Commercial Market

The spell cast by the global crisis in 2008-09 seems to be finally wearing off, as transactions concluded in the last six months show signs of a pick-up in demand for office space. Recent research conducted by sector experts in the realty space has shown that the return of the IT and IT-enabled services coupled with an overall positive perception about economic recovery, has had a benevolent impact on demand for commercial space, and that this is also slowly cascading into the retail space with footfalls and sales volume improving. Most of the development in 2010 is expected to happen in tier-I cities of NCR, Mumbai, Bangalore and Chennai. That said, while demand has picked-up in recent quarters, analysts expect rental expectations to remain under check given the supply pipeline which is building up in these segments.

JLLM: Premium office space demand up Driven by recovery in the economy, demand for premium office space in the metros has improved. In the Delhi NCR region, 5,352 sqm was leased/purchased in the Dec-09 quarter, in stark contrast to the situation in the previous quarters of the year. In Mumbai, 8,40,000 sf of office space was leased/purchased during the year to December. Of that, most of the purchase took place in the last six months. Companies moved out of more expensive locations such as Nariman Point in Mumbai to cheaper areas in suburbs. Business was brisk in the Bangalore office market as well, and in the three months to Dec-09 ~1.58 msf was leased/purchased, more than two times the figure during the Sept-09 quarter. In Hyderabad, things were not positive. Occupiers have moved out of prime business areas to relocate to the suburbs to save costs.

DTZ: Re-entry of US companies may revive office space market Several large and midsized US corporates are firming up plans to outsource their work to India for the first time – a clear push to absorption metrics and hence, visibly positive for the demand-starved commercial office space market. Major cities like Bengaluru, Mumbai and Gurgaon have seen substantial business deals in the last few months and this has led to several new India based subsidiaries and back offices which may generate substantial employment opportunities as well.

Major Office Transactions in February 2010

Company Name	Area Leased (sq ft)	Building Name	Micro Market
Carrefour	37,562	BPTP Park Centra	Delhi, PBD
Kronos	50 seats	Knowledge Boulevard	Delhi, PBD
Accenture	400,000	Mindspace Mumbai,	Mumbai, PBD
Syntel	350,000	Mindspace Mumbai,	Mumbai, PBD
Group M	75,000	Oberoi Commerz	Mumbai, SBD
Oracle	420,000	Kalyani Magnum	Bengaluru, PBD
Telica	43,000	Salarpuria Hallmark	Bengaluru, PBD
Ericsson	23,500	Salarpuria Supreme	Bengaluru, PBD

Source: DTZ