Management discussion and analysis

Global economic overview

In 2017, a decade after the global economy collapsed, a revival manifested wherein major economy expanded: ongoing Euro-zone growth, modest growth in Japan, late revival in China and improving realities in Russia and Brazil. The result was an estimated 3.7% global economic growth in 2017, some 60 bps higher than the previous year. It wouldn't be relevant to indicate that crude oil prices increased in 2017 from $54.13 per barrel at year-start to a low of $46.78 per barrel in June 2017 and year-close at $61.02 per barrel, the highest since 2013.

Global economic growth for 6 years

Year	2014	2015	2016	2017 (e)	2018 (f)	2019 (f)
Real GDP Growth (%)	3.5	3.2	3.1	3.7	3.9	3.0

[Source: World Economic Outlook, January 2018] e: estimated f: forecasted

A review of the various national economies is provided below:

The US: The world's largest economy entered its ninth straight year of growth in 2017 (2.3% compared to 1.6% in 2016) catalysed by the spillover arising out of government spending by the previous administration coupled with US$1.5 trillion worth of tax cuts stimulating investments.

Euro zone: This region experienced the upside arising out of cheap money provided by the central bank. In 2017 and is estimated to grow 2.4% compared with 1.8% in 2016. (Source: WEO January 2018, focus economics).

China: The Chinese economy grew faster than expected in the fourth quarter (October to December) of 2017 at 6.8%, aided by a recovery in exports. This helped China celebrate its first annual growth in seven years. For the full year, China's growth is estimated at 6.9%, its highest since 2010. (Source: WEO, NBS data)

Emerging Asia: Emerging Asia GDP was estimated at 6.5% in 2017, the region driven by infrastructure spending and stable economies.

GCC: These countries were affected by the oil price decline (~60% since 2013), resulting in macro-economic instability that affected job creation and growth. GDP growth remained subdued at 1.8% in 2017 despite efforts to boost the non-oil private sector economy.

Russia: In 2017, Russia was estimated to grow 1.9% following negative growth of 0.6% in 2016 (WEO) and a projected GDP growth of 1.8% in 2018. (Source: MOMR)

Brazil: In 2017, Brazil grew at 1.1% following a deceleration of 3.5% in 2016. The recovery in the GDP was boosted mainly by the agricultural sector which grew by 13%.

Outlook

Global growth forecasts for 2018 and 2019 were revised upward by 20 bps to 3.9%. (Source: WEO, IMF)

Indian economic overview

After registering GDP growth of over 7% for the third year in succession in 2016-17, the Indian economy headed for slower growth estimated at 6.6% in 2017-18. Even with this lower growth for 2017-18, GDP growth averaged 7.3% for the period 2014-15 to 2017-18.

The year under review was marked by structural reforms by the Government. In addition to GST introduction, the year witnessed significant resolution of problems associated with bank non-performing assets, FDI liberalization, bank recapitalization and privatization of coal mines. After remaining in negative territory for a couple of years, export growth rebounded in 2016-17 and strengthened in 2017-18; foreign exchange reserves rose to US$ 414 billion as on January 2018. (Source: CSO, economic survey 2017-18)

Estimation for the FY2017-18 Vs FY 2016-17

Type	2017-18*	2016-17
GDP growth	**6.6%**	**7.1%**
GVA growth	6.4%	9.0%
Farm growth	3%	9.0%
Manufacturing growth	5.1%	9.3%
Power and gas growth	**7.3%**	**6.5%**
Mining growth	3%	1.9%
Construction growth	4.3%	3.5%
Trade, hotel, transport, telecom growth	8.3%	9.8%
Financials, realty growth	7.2%	9.8%
Public, admin, Defence growth	10.1%	16.6%
Per capita income growth	8.3%	9.7%

*Estimated
[Source: http://pib.nic.in/newsite/PrintRelease.aspx?relid=163287]

Key government initiatives

Bank recapitalisation scheme: The Central Government announced capital infusion of ₹2.1 lac crore in public sector banks.

Expanding road network: The Government of India announced a ₹6.9 lac crore investment to construct 83,677 kilometres of roads across five years.

Improving ecosystem: The country was ranked at the hundredth position, an improvement of 30 places in the World Bank's Ease of Doing Business 2017 report, a result of the Central Government's pro-reform agenda.

Goods and Services Tax: The Government of India launched GST in July 2017, with the vision of creating a unified market. Under this regime, various goods and services would be taxed as per five slabs (28%, 18%, 12%, 5% and zero tax).

Foreign Direct Investment: Foreign direct investment increased from approximately USD 24 billion in FY2012 to approximately USD 60 billion in FY2017, an all-time high.

Coal mining opened for private sector: The government opened coal mining to private sector firms for commercial use, the most ambitious sectoral reform since nationalization in 1973.

Doubling farm incomes: The government initiated a seven-point action plan to double farm incomes by 2022.

Outlook

World Bank projected India's economic growth to accelerate to 7.3% in 2018-19 and 7.5% in 2019-20. Strong private consumption and services are expected to continue to support economic activity. Private investment is expected to revive as soon as the corporate sector adjusts to the GST. (Source: IMF, World Bank)

Infrastructure sector in India

Infrastructure is a key driver of the overall development of Indian economy. This sector focuses on major infrastructure sectors such as power, roads and bridges, dams and urban infrastructure. The dynamics of infrastructure development has evolved with time. As China built its economy on the back of robust infrastructural development, India is on its way to the same route. The development activities have gathered pace coupled with the thrust by government that can be seen through various initiatives like 'Housing for All', 'Smart Cities', AMRUT, increased budgetary spending, among others. The changing infrastructure landscape in India has generated significant interest from international investors. FDI received in construction development sector (townships, housing, built up infrastructure and construction development projects) from April 2000 to December 2017 stood at US$24.67 billion; and in construction (infrastructure) activities stood at US$12.36 billion.

Outlook

Sectors like power transmission, roads and highways and renewable energy will drive the investments in the coming years. New models of infrastructural development such as HAM will be beneficial by bringing together both private and public participants. India has a requirement of investment worth ₹50 trillion (US$ 777.73 billion) in infrastructure by 2022 to have sustainable development in the country. Thus, the speed of infrastructural development needs to be amped up for bridging the demand-supply gap.

Budgetary provisions

- Rs. 5.97 lakh crore (US$ 92.22 billion) has been allocated to the infrastructure sector in the Union Budget.
- The online monitoring system 'PRAGATI' has been used to facilitate projects worth ₹9.46 lakh crore (US$ 148.72 billion).
- Under the Smart Cities Mission, projects worth ₹2,350 crore (369.43 million) have been completed and projects worth 20,852 crore (US$ 3.82 billion) are under progress. A total of 99 cities have been selected under the mission with an outlay of ₹2.04 lakh crore (US$ 32.07 billion).

[Source: IBEF]

Roads

India has the second-largest road network across the world at 4.7 million kilometres. Indian roads carry ~90% of the country's passenger traffic and ~65% of its freight. In India sales of automobiles and movement of freight by roads is growing at a rapid rate. Cognisant of the need to create an adequate road network to cater to the increased traffic and movement of goods, the Government of India has earmarked 20% of an investment of US$1 trillion reserved for the infrastructure sector during the 12th Five Year Plan (2012–17) period to develop the country's roads. (Source: IBEF)

Key developments, FY2017-18

- Total length of roads constructed under Prime Minister's Gram Sadak Yojana (PMGSY) was 47,447 kilometres in 2017-18.
- A contract has been awarded to the National Highways and Infrastructure Development Corporation (NHIDCL) will build five all-weather access tunnels at an investment of ₹23,000 crore in Jammu and Kashmir by 2024.
- The Cabinet Committee of Economic Affairs (CCEA) has approved the construction of Zoji La tunnel which is a strategic transport project for all-weather connectivity in Srinagar, Kargil and Leh.

Budgetary provisions

- A budget of ₹71,000 crore for the Ministry of Road Transport and Highways.
- Rs. 21,453.42 crore has been allocated to the Highways Ministry
- ~35,000 kilometres of road construction has been approved under the Phase-1 of the Bharatmala Pariyojana at an estimated cost of ₹5.35 lac crore.

Outlook

Besides attracting investors, the Government of India has lined up numerous investments for the road sector:

- Invest ₹7 trillion for construction of new roads and highways over the next five years.
- Spend ₹1 lac crore during FY18-20 to build roads in the country under Pradhan Mantri Gram Sadak Yojana
- Develop a total of 66,117 kilometres of roads under different programmes such as National Highways Development Project, Special Accelerated Road Development Programme in North East and Left Wing Extremism.
- Target doubling the length of the national highway network to 200,000 kilometres. To fulfill this target, the body plans to build 50,000 kilometres of roads worth US$250 billion by 2022. Besides national highways, the potential to develop 2,000 kilometres of coastal roads has been identified to improve the connectivity between ports and remote villages.
- Implement the 'Value Engineering Programme' in order to promote use of new technologies and material in highway projects.

[Source: ET, IBEF]

Railways

The Indian railway network spans more than 108,706 kilometres across 6,853 stations transporting 11,000 trains daily. Revenue generated from the Indian Railways was US$ 23.63 billion during April-February 2017-18. The passenger earnings grew to US$ 6.8 billion and the freight earnings grew to US$ 15.6 billion during the same period. The FDI inflow in this sector between April 2000 and December 2017 was US$ 897.09 million.

Key developments, FY2017-18

- Launched SFOORTI application to improve freight operations and manage traffic flow.
- Signed an agreement with the Government of Japan to implement the Mumbai-Ahmedabad high speed rail corridor along with a financial assistance covering 81% of the total project cost.
- Planned to phase out diesel locomotives to save ~ ₹11,500 crore yearly.
- Boost connectivity between India and Bangladesh via a new passenger train service between Kolkata and Khulna.

- Put forward a global tender to obtain 700,000 metric tonnes of railway track for improving track safety.
- Launched a new online vendor registration system to ensure transparent systems and procedures.

Budgetary provisions

- Allocate a budget of ₹1.48 lac crore, most of which will be utilised towards capacity creation.
- Manufacture 12,000 wagons, 5160 coaches and 700 locomotives.
- Create world-class modern train sets manufactured at Integral Coach Factory, Chennai.
- Eliminate 4,267 unmanned crossings in the next two years.
- Introduce Wi-Fi, CCTVs in all stations and trains for passenger security.
- Allocate ₹11,000 crore to add 90 kilometres of double line tracks for the local trains in Mumbai.
- Redevelop 600 major stations by Indian Railway Station Development
- Introduce escalators across railway stations with >25,000 footfalls.
- Target >3,600 kilometres for track renewal

Outlook

Over the next five years the railway market is expected to become the third-largest in the world, accounting for 10% of the global market. The Central Government is focusing on infrastructural development to transport increasing freight volumes. The Indian Railways is planning to invest around ₹3,000 crore to convert 40 out of its 100 yards into smart yards and end manual inspections. The number of coaches in trains are expected to be standardised to 22 or less which will help to run more number of trains. The Indian Railways is targeting to increase its freight traffic to 3 billion tonnes by 2030 and have a 50% share in overall goods movement. The Indian Railways plans to come up with a 'National Rail Plan' enabling the nation to integrate its rail network with other modes of transport and develop a multi-modal transportation network. To boost the industrial infrastructure of the state of Chhattisgarh, the State Government decided to build two fully electrified rail corridors worth ₹10,000 crore in a joint venture with Indian Railways. The Indian Railways is also planning to invest capital towards the adoption of European Train Control Systems, which will help in the development of infrastructural facilities.

[Source: IBEF, Financial Express]

Ports

Indian ports and shipping industry plays a major role in trade and commerce. India ranks sixteenth in the list of maritime countries and has 12 major and 200 intermediate and minor ports. During April 2017 till February 2018, cargo traffic at major ports increased by 4.97% y-o-y to reach 616.62 million tonnes. Container traffic also witnessed the highest growth during this period at 8.37% to reach 8,302 twenty foot equivalent units.

Key developments, FY2017-18

- Improved average turnaround time from 87.36 hours in 2015-16 to 63.33 hours as on 31.10.2017.
- Commenced development work for Phase-I of National Waterway-4 from Muktiyala to Vijaywada in October, 2017, to facilitate movement of construction material for Amravati, the upcoming capital city of Andhra Pradesh.
- Started Project Unnati to identify the areas for improvement in the operations of major ports. Under the project, 116 initiatives were identified out of which 86 initiatives have been implemented
- Inaugurated a new sea route to Baratang Island and initiated various shipping projects in the Andaman and Nicobar Islands.

Budgetary provisions

- For transportation sector as a whole, including rail, roads, shipping, provision of ₹2,41,387 crore has been made in 2017-18.
- DP World Pvt. Ltd, world's fourth biggest container port operator, plans to invest over USD 1 billion in India, which will be used for augmenting its port-related operations.
- The Ministry of Shipping, Government of India, released ₹25 crore as grants-in-aid to JNPT and ₹50 crore to the Government of Karnataka for Karwar port for infrastructure development under the coastal berth scheme of the Sagarmala programme.

Outlook

Ports are important for India's economy and the government plans to develop ten coastal economic regions under the Sagarmala project. These regions would be converted into manufacturing hubs supported by port modernisation projects spanning across a 300 to 500-kilometre-long coastline. Inland waterways are being considered as alternative means of transporting goods as opposed to roadways and railways. Developing these waterways would require private investments in the shipping sector. The Ministries of Road Transport and Highways and Shipping are optimistic about bringing about a revolution over the next five years, leading to the development of eight major ports, 27 industrial clusters, improvement of port connectivity via roadways and railways. All this development would need an investment of ~Rs. 400,000 crore. Besides, the Central Government is planning to invest ₹70,000 crore in 12 major ports under the Sagarmala initiative in the next five years. The capacity of the fourth container terminal of Jawaharlal Nehru Port, Mumbai is being doubled. In its Maritime Agenda 2010–2020, the Ministry of Shipping has set itself a target of >3,130 million metric tonnes by 2020.This would be driven by private sector participation. Non-major ports are expected to generate over 50% of this capacity. (Source: Ministry of Shipping, IBEF, News18)

Airports

The boom in the Indian civil aviation sector is being driven by factors like low-cost carriers, modern airports, FDI in domestic airlines, advanced technological interventions and an increasing focus on connectivity. Growth in passenger traffic has also increased due to rising disposable incomes and availability of low-cost aviation. Between April 2017 and February 2018, domestic airlines carried over 280.24 million passengers and by 2020, passenger traffic at Indian airports is expected to increase to 421 million. Freight traffic is expected to grow at a CAGR of 7.27% to reach 4.14 million tonnes in FY23. Growth in passenger traffic has been steadily rising due to increase in disposable incomes in the hands of consumers and low-cost aviation. And by 2036, India is estimated to have 480 million flyers, which will be more than that of Japan and Germany combined.

Key developments, FY2017-18

- Launched regional connectivity scheme named UDAN.
- Opened up to private participation with six airports across major cities being developed under the PPP model.
- Launched the construction of Navi Mumbai airport in February 2018 at a cost of US$ 2.58 billion.
- Awarded 325 routes to airlines as well as helicopter operators with the objective of enhancing flight services to hilly and remote areas under RCS 2.
- Cleared airport building and modernisation projects worth >Rs. 19,300 crore.

Budgetary provisions

- Tripled allocation to Civil Aviation Ministry to ₹6,602.86 crore.
- Focused on expansion of airport infrastructure as well as growth of airlines.
- Proposed expansion of airport capacity by >5x to handle a billion trips a year.
- Connected 56 unserved airports and 31 unserved helipads under UDAN.

Outlook

This sector has a lot of potential to grow and is still largely untapped as air transport is still expensive for majority of the country's population. Prudent engagement of stakeholders and collaboration with policy makers would help in the implementation of efficient decisions which would boost the nation's aviation sector. The Airport Authority of India is planning to invest ₹15,000 crore in 2018-19 for expanding existing terminals and constructing 15 new ones. The AAI aims to bring 250 airports under operation across the country by 2020. Indian companies are expected to purchase 2,100 new planes worth US$ 290 billion.

[Source: IBEF, Financial Express]

Power

The power sector is an important contributor to India's economy, forming part of the Industrial sector, one of the three major sectors of the economy. India has moved up to the 26th spot in the World Bank's electricity accessibility ranking in 2017 from 99th spot in 2014, on the back of the government's electrification programme. The country produced 1,201.543 BU in FY18, witnessing a growth of around 55.72% over FY17. India has a total installed capacity of 3,43,789 MW as on April 2018, of which 69020 MW is renewable energy.

Key developments, FY2017-18

- Energy Efficiency Services Ltd (EESL) has raised US$ 454 million from Global Environment Facility (GEF) for its energy-efficiency projects in an attempt to boost India's move towards becoming a low carbon economy.
- IL&FS Financial Services Ltd has partnered with Jammu and Kashmir Bank Ltd. to finance nine hydropower projects in J&K with a total capacity of 2,000 MW, at a cost of around ₹20,000 crore (US$ 3.12 billion).
- State Bank of India (SBI) and the World Bank have decided to sanction credit worth ₹2,317 crore (US$ 356.82 million) to seven corporates towards solar rooftop projects to generate a total of 575 megawatt (MW) of solar energy.
- India added 467 MW of grid interactive wind power capacity between January-November 2017, while wind power projects with cumulative capacity of 9,500 MW are expected to be bid out by March 2018

- A total of 26.3 million households which are below poverty line (BPL) have been electrified under the Rural Electrification component of Deen Dayal Upadhyay Gram Jyoti Yojana (DDUGJY)
- In April 2018 ReNew Power made the largest M&A deal by acquiring Ostro Energy for US$ 1,668.21 million.

Budgetary provisions

- The Department of Economic Affairs, Government of India, signed a guarantee agreement for IBRD/CTF loan worth US$ 98 million and grant agreement for US$ 2 million with the World Bank for 'shared infrastructure for solar parks project'.
- The allocation under the Deendayal Upadhyaya Gram Jyoti Yojana for FY2017-18 has been raised to ₹4,814 cr in order to achieve the goal of 100%-rural electrification by 1st May 2018
- Customs duty on LNG has been halved (from 5% to 2.5%) to support stranded gas power plants
- Plans have been made to install 1,000 megawatts of solar capacity at railway stations
- A capital subsidy (of up to 25%) under the Modified Special Incentive Package Scheme and the Electronics Development Fund will benefit domestic solar cell and module manufacturers as well as foreign players planning setting up base in India

Outlook

The outlook for the power sector is positive, with the government aiming to achieve 175 GW capacity in renewable energy by 2022, which includes 100 GW of solar power and 60 GW of wind power. The Union Government of India is preparing a 'rent a roof' policy for supporting its target of generating 40 gigawatts (GW) of power through solar rooftop projects by 2022. Meanwhile, coal-based power generation capacity currently stands at 192 GW and is expected to reach 330-441 GW by 2040. The government's immediate goal is to generate two trillion units (kilowatt hours) of energy by 2019. This means doubling the current production capacity to provide 24x7electricity for residential, industrial, commercial and agriculture use. A total of 16,064 villages out of 18,452 un-electrified villages in India have been electrified up to December 2017 as part of the target to electrify all villages by May 1, 2018.

[Source: powermin, SECI, IBEF, India Budget]