ECONOMY

Economic Growth/Reforms

Lag in reforms may slow down India’s growth: Moody’s

India's economic prospects face new hurdles amid falling investment, and medium and long-term growth would suffer without sufficient and quick reforms, the analytics arm of global credit rating agency Moody's said in a report on Thursday.

It forecast that India's GDP will grow 7.6% in 2015, but said any expansion below 10% will be below potential given India's new controversial formula to calculate the size of the economy. India's GDP grew 7.3% in 2014-15.

"The government's failure to deliver promised reforms is the major impediment," said the report, "India Outlook: Waiting for Reforms to Fuel Growth". The report also raised questions on the state of the RBI, which is in the midst of a controversial overhaul on the governor's powers, saying any tampering with RBI's autonomy may hurt India's credibility.

"Key reforms such as the land acquisition bill, flexible labour laws, and the goods and services tax have failed to pass parliament. And given the political seesaw, these are unlikely to be delivered until later this year or even 2016," Faraz Syed, associate economist, Moody's Analytics, said in the report.

Critical reforms measures such as the goods and services tax (GST) and the land acquisition bill have remained stuck because of a logjam in Parliament.

The Moody's Analytics report termed these as "empty promises" mirroring the views of restive investors who want speedier reforms and easier rules to do business in India, which is set to become the world’s fastest growing major economy.

The commentary marks a turnabout in India’s image after the Narendra Modi led BJP road to a landslide poll victory last year promising to usher in “achche din” and drumming up expectations of investor-friendly measures.

India’s political infighting is denting business confidence, it said, adding that without a majority in the upper house, the ruling BJP’s power has been “nullified” and the opposition has blocked proposed reforms. Moody’s Analytics, a division of Moody’s Analytics, a division of Moody’s Corporation, said investment rates in India have fallen amid stalled infrastructure projects and mounting bad loans. “A positive step higher is not likely without significant reform,” it said.

India’s ability to rival neighbouring titan China would critically depend on the pace of important reforms such as the land acquisition bill which is a catalyst for investment, it said. “Passing the bill will improve India’s business environment by speeding up the conversion of land for infrastructure use. Foreign firms are wary of investing in India, as lengthy delays in acquiring land tend to stall projects,” it said. “There are signs that all is not well for manufacturing, the key industry touted by the BJP drive India’s growth engine”.

Moody’s analytics warned against going ahead with the proposal to remove the RBI governor’s veto power under a proposed new monetary policy committee to decide on interest rates.

The government has proposed a seven-member monetary policy committee, including four members picked by the government, to vote on interest rate decisions. It would also remove the governor’s veto power.
The report said a government elected panel would undermine the RBI’s independence. Moving to the new model would severely dent the RBI’s competency, it said.

Public Finance Taxes And Duties

Govt gets `1-lakh crore spend cushion for FY16

With global crude oil prices, already low for a while, expected to remain below $70 a barrel for the rest of this financial year, besides an expected increase in indirect-tax buoyancy, the Narendra Modi-led central government is looking at a spending cushion of about `1 lakh crore for 2015-16.

The savings, especially those on account of lower subsidies, are likely to be used for infrastructure spending, social-sector schemes, and for balancing the fiscal maths, Business Standard has learnt.

The government's total budgeted expenditure for 2015-16 is `17.77 lakh crore `15.36 lakh crore meant for revenue expenditure, and `2.41 lakh crore for capital spending. This is the Centre's highest-ever budgeted capital outlay, against the backdrop of Finance Minister Arun Jaitley’s stated commitment I to boosting public spending on infrastructure.

Over the past three years, the finance ministry - first under P Chidambaram and then under Jaitley - has had to effect massive government spending cuts to finance high subsidy bills and to meet ambitious fiscal deficit targets.

In no financial year since 2011-12 have the government's revised expenditure estimates been higher than, budgeted estimates. And even in that year that was so because of a rise in revenue spending. The last time the Centre actually paid more in capital expenditure than budgeted estimates was in 2010-11.

This year officials are confident there will be no spending cuts and the government might in fact have the rare headroom to spend more than budgeted, without worrying about fiscal arithmetic. "The situation is comfortable this year and we have a lot of fiscal breathing space. We expect savings on the subsidy side primarily due to (low) oil prices. The budgeted spending targets will surely be met. We may even exceed those," said a senior government official.

On the revenue side higher buoyancy on indirect taxes is expected to give Jaitley extra sending room. The Centre collected `1.54 lakh crore in indirect taxes in April-June this year up 37 per cent over the `1.2 lakh crore in the year-ago period.

97% traders to get LBT relief from Aug 1

A new system is set to replace the local body tax (LBT), which will be scrapped from August 1. The state government claimed around 97.7% of the traders will be exempted from local taxes, while only 50 big manufacturers and companies will continue to pay them, The ‘tax holiday’ offered to the traders, however, may not stay for long because the state is considering an ‘agriculture surcharge’ to be levied very soon.
LABOUR

The state government has almost finalised allowing 25 municipal corporations to collect stamp duty on real estate deals to make up for the LBT losses. The announcement is expected to be made in the legislature this week. The new option comes with an additional financial burden of around Rs.4,000 crore because the traders have to pay no local taxes till the Goods and Service Tax (GST) comes to force by April 1, 2016.

The scrapping, however, comes with a catch because traders with an annual turnover of Rs.50 crore or more will not be entitled to an exemption from the LBT. "Only 50 manufacturers or companies have not been covered in the new system and I think this will be largely accepted by the trading community. We have decided to make the big players an exception because they would have otherwise enjoyed undue windfall," said chief minister Devendra Fadnavis.

According to government sources, the manufacturers or the industries that are into the inter-state trading will continue to pay the LBT. "The limit of the annual turnover of Rs.50 crore is to ensure the burden of the tax on goods exported to other states is not put on the people of Maharashtra," an officer from the finance department said.

Fadnavis also claimed though the government has made a budgetary allocation of Rs.2,098 crore to make up for the LBT losses between August and December this year, the burden will be lesser than that.

Mohan Gurnani of the Federation of Associations of Manufacturers said though they are happy with the decision, it cannot be welcomed. "The traders dealing in inter region trade of petroleum products will have to pay the taxes. The government should have borne the burden which could have been just Rs.286 crore," he said.

CEMENT INDUSTRY

New Projects/Expansions/Diversification

Lafarge-Holcim to cut more costs, faces more competition

Lafarge-Holcim, the cement maker formed this month in a Franco-Swiss tie-up, said it needs to cut costs to improve profit margins after both merging companies reported earnings below analysts’ forecasts.

The new company will cut spending by at least 200 million Swiss francs ($208 million) over the rest of 2015, when compared to what both companies had planned to spend on a standalone basis, Lafarge-Holcim, based in Jona near Zurich, said in a statement on Wednesday. It also predicts 100 million Swiss francs of cost savings in the period.

“A disappointing quarter for both Lafarge and Holcim indicative of these exposure to challenging markets,” Phil Roseberg, an analyst at Bernstein; wrote in a research note. "This is not a good start for the merged entity, but does lower the bar for incoming management."

Lafarge-Holcim has predicted the merger to form the world's largest cement maker will lead to cost savings of 1.4 billion euros annually within three years, giving it an advantage over competitors after a global recession eroded demand for building materials. Holcim has now a bigger stake in the new entity.

The new entity faces increased competition from HeidelbergCement after the German company said on Tuesday it plans to buy rival Italcementi for 3.7 billion euros, putting its repaired balance sheet to work and following Lafarge-Holcim down the path of consolidation.

The Hindustan Times
Mumbai, 27.07.2015

The Financial Express
Paris, 30.07.2015
Financing/Public Issues/Shares

Ambuja Cements net dives 45% on lower realization

Ambuja Cements has reported 45 per cent fall in its June quarter net profit at `226 crore against `409 crore registered in the same period last year due to lower realisation.

Net sales were down eight per cent at `2,493 crore (``2,706 crore). Sales volume increased marginally by two per cent to 5.88 million tonnes (5.79 mt) in June quarter. Ambuja has announced a dividend of `1.60 a share and fixed August 3 as record date.

The decline in cement prices by 10 per cent coupled with additional depreciation of `22 crore led to lower profit, said the company in a statement on Monday. Its logistics cost was up five per cent at `715 crore (`681 crore) largely due to increase in railway freight rates.

The raw material cost was down marginally at `217 crore (`220 crore), while that of power dipped six per cent to `584 crore (`624 crore). Finance cost of the company increased to `32 crore (`20 crore).

Lower raw material prices and the company's attempt to improve operational efficiencies helped contain the overall cost but it could not mitigate the impact of sharp fall in cement prices in certain States, it said. Earnings before interest, tax, depreciation and amortisation was down 35 per cent at `384 crore (`588 crore).

Ambuja Cements expects cement demand to remain weak in the September quarter with the onset of monsoon across the country. In the short-term, the macro-economic indicators point to sluggish cement demand" it said.

However, it added, the Government's initiatives towards housing, concrete roads, smart cities and emphasis on infrastructure development should boost demand in the long run. The company will continue to focus on improving operation efficiencies, it added.

As part of the Lafarge-Holcim merger, Etic Olsen has taken over prove operational efficiencies as Chief Executive Officer in place of Bernard Fontana who demitted office on July 17. Shares of Ambuja Cements were down three per cent at `243 on Monday.

The Hindu Business Line
Mumbai, 28.07.2015

Housing & Building Construction

CII’s Innovation Summit to explore home-grown solutions for smart cities

The Confederation of Indian Industry's (CII) '11th India Innovation Summit' will focus on agricultural innovation, home- grown solutions for smart cities and 'Make in India' a job creation engine.

Kris Gopalakrishnan, chairman, India Innovation Summit and co-founder Infosys, told reporters that the summit is an ideal platform for the industry to explore the dynamic entrepreneurship environment in the country in terms
of its opportunities and challenges. This year’s summit will be held on August 6 and 7 at Bengaluru.

Justifying for selecting Bengaluru, Gopalakrishnan said: "The city legitimately can claim to be the innovation capital of the country. In a recent ranking of cities where innovation flourishes, city is ranked 15th as the most 'Innovative Cities' in the World."

"As innovation plays a key role in progress, economic growth and job creation. This year we are looking at how innovation and start-ups can play a bigger role in national priorities," he further added.

Vijaykumar, Co-Founder and CTO, Crayon Data Pte, said the summit provides a comprehensive round up of major national initiatives, covering topics such as agricultural innovations, smart cities, Swachh Bharat, Make in India, financial inclusion, integrated transport systems and regional start-up systems.

The Hindu Business Line
Bengaluru, 30.07.2015

ENERGY/FUEL/POWER

Power Projects/Generation/Distribution/Tariff

46,000-MW power projects facing viability issues: CRISIL

Power projects of 46,000 Mw are currently facing viability issues due to lack of long-term buyers for electricity, inadequate fuel supply and aggressive bidding to win projects and coal blocks.

Of this, 36,000 Mw are coal-based within which tariff under recovery has impacted 20,000 Mw of capacities, while the rest are reeling because of inadequate feed stock and poor electricity offtake by distribution companies (discoms). Further, 10,000 Mw of gas-based projects have become unviable due to dwindling fuel supplies from the Krishna-Godavari basin.

CRISIL Ratings in its report titled 'Current Worries' on power sector released on Tuesday said loans of `75,000 crore are at risk, if issues are not sorted out soon.

CRISIL Ratings chief analyst officer Pawan Agarwal said, "Total loans to these stressed generation projects are currently `2.1 lakh crore. A sixth of them, or about `35,000 crore, is for projects which have the cushion of a strong parent. Additionally, projects with loans of `1 lakh crore could become viable, if their payment profiles can be structured appropriately. This leaves the remaining `75,000 crore of loans at risk."

Another `1.9 lakh crore debt is owed by weak, discoms, for which moratorium on principal repayment based on a financial restructuring package (FRP) announced in 2012 and new in the current and next financial year. Till date, government support has prevented these discoms from turning weak. Assurance of continuing financial support is necessary; else this debt too can be at risk.

However, states and discoms after the FRP did not follow through fully with measures to improve financial discipline and commercial orientation.

The FRP provided only liquidity respite. Discoms will continue to face liquidity pressure till there are appropriate tariff hikes, and a significant reduction in aggregate technical and commercial (AT&C) losses from the current level of 25.4 per cent.

CRISIL Ratings senior director Sudip Sural said 1 per cent reduction in AT&C losses will increase cash flow by `4,000-5,000 crore. "Annual tariff hike of 10 per cent over the next three years and a reduction of at least 200
LABOUR

basis points (bps) in AT&C losses are necessary for discoms’ to break even in the medium-term.

As for the health sector, improving agricultural metering and feeder separation, timely tariff filings and financial reporting, focus on power purchase cost optimisation through accurate demand estimation, and signing more power purchase agreements (PPAs) are necessary,” he noted.

According to Sural, significant efforts to augment domestic coal production and improvement in the ability of discoms to sign longterm PPAs are critical going forward.

He said the government’s move to improve fuel availability through coal block auctions and gas subsidy provide only limited relief as the plant load factor (PLF) of capacities commissioned after 2009 will remain sub-optimal at 45 per cent. “If discoms remain financially fragile and stay away from signing PPAs, capacities at risk will increase,” he said.

The Business Standard
Mumbai, 30.07.2015

TRANSPORT

Highways/Roads/Bridges

Coastal Road project report flawed: Activists

With the civic body having extended the date for submission of suggestions and objections for the proposed Coastal Road to August 27 from July 27, activists are preparing to oppose the project tooth and nail. An important point raised is that the Detailed Project Report (DPR) is flawed.

The road will snake from Nariman Point to Kandivli on the western coast, with land being reclamation the sea. “We have studied the DPR by STUP and E&Y. It mentions how and where to construct the road but doesn't clarify 'why' such a huge capital cost intensive road (is needed)?” reads the opposition sent by planner-architect Nitin Killawala, a Juhu resident.

As per him, traffic and chaos has increased despite having constructed 55 flyovers on Western and Eastern Express Highways over a decade. The project also doesn't have plans to integrate with public transport.

"The DPR doesn't provide clear projections of traffic volume, toll rates and amount. Giving exponential and mechanistic projections of traffic, toll amounts and economic benefits

As per Datar, the DPR considers "do nothing" as the only option. He believes that alternatives in the form of MUTPIII, Bus Rapid Transit System on the WEH, Jogeshwari-Vikhroli Link Road and SantaCruz Chembur Link Road, with innovations, are quite possible.

"A simple multi-lane hi-speed car-centric solution is quite old-fashioned and, when it involves walling of large part of coast, it increases the risk of flooding in the city”.

DNA
Mumbai, 29.07.2015

India’s first undersea tunnel sees buoyant bidding by four

Four international bidders in consortium with Indian partners are in the race for preparing a detailed project report (DPR) for the country's first underwater tunnel. The government is planning to develop immersed tunnels between Kakdwip and Sagar Island in West Bengal, and Chatham and Bamboo Flat in the Andaman Nicobar
The two projects could together cost around `3,000 crore. If the Bengal project is found viable after DPRs, it would be India's first underwater tunnel in the Muri Ganga river, stretched over 3.5 km. This would have both rail and road links, and is estimated to cost around `2,000 crore. The other option being examined is an elevated rail-road link connecting Kakdwip and Sagar Island. The government intends to set up a port at Sagar Island, and the proposed connectivity will ensure hassle-free movement of cargo, said an official.

The other proposed stretch is about 2 km, connecting Chatham and Bamboo Flat in Andaman Nicobar Islands. In the absence of any direct connectivity, people often travel 48 km via road. Even here, the government is looking at both elevated and underwater options, but it would have only road connectivity since Andaman is not connected by rail.

The National Highways & Infrastructure Development Corporation Limited (NHIDCL) had invited consultants for preparing DPR. "The consultants, who have evinced interest in these two projects, are from Switzerland, Hong Kong, the US and Denmark," said an official, who did not divulge the names of consultants.

The consultants would be required to submit their reports within nine months of the project being awarded. Speaking to Business Standard, Anand Kumar, managing director, NHIDCL, said.

"The selected bidders will make two reports for building elevated stretches and immersed tunnels. Based on technical feasibility and economic viability, the ministry will take a call on whether to build a tunnel or an elevated stretch."

The selected consultant would also prepare the feasibility report, DPR and bid documents. The feasibility and DPRs would include traffic and engineering surveys, alignment review, land plans and preliminary design of geometries, safety devices, toll plazas, design and drawings, project facilities etc.

If found technically feasible and financially viable, the project might be awarded to private investors on tolling, annuity and hybrid annuity models, or on government-funded basis to a private entity selected through a competitive bidding process. The total distance between Kakdwip and Sagar Island is around 3.5 km. The other proposed corridor between Chatham and Bamboo Flat in Andaman Nicobar Islands is about two kilometre. The indicative cost of the project is `1,000 crore.

BMC to spend Rs.600 cr for coastal road report review

The civic authorities are in the process of appointing a firm to review the draft detailed project report (DPR) on the coastal road, an exercise which will cost them up to Rs.600 crore.

While this amounts to 5% of the total cost of the project, the Brihanmumbai Municipal Corporation (BMC) claims this step is necessary to ensure the accuracy of the report. The Rs.12,000 crore project will be based on the DPR.

Civic officials said as part of the review; the feasibility of construction methods suggested in the DPR will be checked. They added that the reviewer will also verify the feasibility of constructing two under-sea tunnels as suggested by the report.

The BMC floated expressions of interests for the peer review (third-party audit) on the DPR earlier this month and around 12 companies have responded. The tenders are expected to be floated within a fortnight.
A senior official, on condition of anonymity, said, "We do not have a detailed report on the under-sea tunnels. By appointing a firm to review DPR, we hope to carry out an under-sea study that will give us an idea about building tunnels in the sea. This process will cost around Rs.600 crore, which is 5% of the total project cost."

At present, the deadline for the suggestions and objections on the draft DPR has been extended to August 27. BMC sources said the tender conditions have been made stringent and only companies that have expertise on international projects (excluding Indian projects) will be applicable for the peer review.

Another official, on request of anonymity, said, "Most of the companies that are interested in reviewing the DPR are international companies have studied and designed foreign projects. Tenders will be floated after which standing committee will appoint the lowest bidder. The entire process will take a one month's time."

Sanjay Mukherjee, additional municipal commissioner in-charge of this project, said, “Around 12 companies have so far expressed interest in peer reviewing the draft DPR on the coastal road project."

---

**Inland Waterways & Irrigation Canals**

**JN port to raise `2,600 crore in dollar loans**

The Jawaharlal Nehru (JN) Port Trust, which ships more than half of India's containerized cargo passing through its ports, plans to raise as much as `2,600 crore worth of dollar-denominated loans by March to help fund a road-widening project for faster evacuation of cargo.

Doubling the highway from the existing four lane to cater to the growing traffic is estimated to cost about `3,200 crore. While the highway project will be executed by the National Highways Authority of India, the project will be funded entirely by JN port.

"Leveraging the dollar-denominated receivables of JN port accruing from vessel-related charges can be utilized to provide a natural hedge against the dollar-denominated long-term funding;" a spokesman for the port located near Mumbai and one of the 12 owned by the Union government, said.

This will be the first such dollar borrowing by a port owned by the Union government. Vessel-related charges or so-called marine charges such as port dues, berth hire and pilotage are paid by ships calling at a port. Vessel-related charges for foreign-going vessels are denominated in dollars but collected in rupees after applying the prevailing exchange rate, according to a practice followed since 1991.

Cargo-related charges at ports such as wharfage, crane hire, storage, warehouse, demurrage and estate rentals are denominated and collected in rupees.

"This (dollar loan) will enable the port to get a competitive low interest rate as compared to interest rate for rupee term loan, thus resulting in substantial interest cost saving for JN port. Owing to competitively lower interest rates of dollar-denominated borrowings of 4% as compared to typical interest rates of 12% for rupee term loan, there would be saving of around 8% in interest costs for JN port," the spokesman added.

The dollar loan plan is an initiative of the shipping ministry under which the dozen ports have been asked to explore the possibility of availing of external borrowings, which are available at very

---
competitive rates in the global market.

“The dollar-denominated loan will reduce the cost of funding the road widening project drastically, a shipping ministry spokesman said.

JN port held a pre-bid meeting with bankers including State Bank of India and Yes Bank Ltd on Monday to hire a transaction advisor to help mobilize funds, the port spokesman added.

LABOUR

General

`6,000 Crore of EPF Money to be invested in Equities by March 2016

About `6,000 crore of EPF (Employees' Provident Fund) money would be invested in equities by March 2016 with a view to get higher returns, said Union Minister of State for Labour Bandaru Dattatreya on Monday.

"We proposed to go for equity participation with this `6,000 crore by end of March 2016. This process has already begun; Our portfolio managers, SBI, Reliance and HSBC bank and some other organisations are part of this portfolio management. Through them, we have facilitated the entry of these funds into the market. This is being done for the first time by the labour ministry," he told reporters here.

The investment would begin with 1 per cent of EPF-related money which could eventually go up to 15 per cent, he said.

“Approximately `8,30,000 crore of EPF-related money is there (with Government). The Finance Minister had said in his Budget speech that portfolio management (of the funds) should not be done by old methods alone and favoured equity participation of 5-15%,” Dattatreya said.

His ministry discussed the issue and sought a report from a consultancy, which noted that workers in other countries got higher returns through equity participation of their funds, Dattatreya said.

ETF: EPFO not willing to invest over `1,000 crore

FACING an uphill target, the department of disinvestment (DoD) wants the Employees Provident Fund Organisation (EPFO) to invest `6,000 crore in the country's only exchange-traded fund (ETF) of PSU stocks, but the retirement fund body is now keen on investing only `1,000 crore.

The EPFO had earlier committed to the finance ministry that it will start investing from August 1 in the
central public sector enterprises (CPSE) ETF, a top official said. The ETF is a pool of shares of 10 blue chip state-run firms, including ONGC, GAIL, Coal India and IOC.

But the pension fund body has not yet reverted to the DoD on how much it will invest and when. "EPFO is dilly-dallying on its commitment to invest in CPSE ETF.

They said they would invest from August 1, but have not yet come up with any proposal," the official said. The official further said that the EPFO is now insisting on a longer-term track record of returns on CPSE ETF investments, which is not possible as the fund started operations only in March last year.

When contacted, EPFO's central provident fund commission K K Jalan said that EPFO has decided to invest5 % of the incremental deposits in ETFs every month but said no decision on how much to invest in the CPSE ETF have been made. The government had first launched a CPSE ETF, comprising scrips of 10 PSUs, in March 2014 under which retail investors have to invest a minimum of `5,000 to buy units.

The finance ministry is planning to launch a revamped and retail investor-friendly CPSE ETF soon. The ETF forms part of government disinvestment programme of the current fiscal through which DoD targets to raise `41,000 crore by selling minority stake in PSUs.

"We asked EPFO to put `6,000 crore. They saying it is too high. They say trade union representatives are not agreeing. They are okay with `1,000 crore," the official added.

The EPFO, which has over `6 crore subscribers, has been investing in state and central government securities. It had earlier decided to invest a portion of its incremental corpus in the CPSE ETF. EPFO has a corpus of about `6.5 lakh crore with an average annual deposit of `80,000 crore.

The official said when the disinvestment department goes for overseas road shows, investors ask if domestic pension fund is investing in PSU stake sale. "EPFO investment in ETF would give a good signal to foreign pension funds."

*The Financial Express*
*New Delhi, 27.07.2015*