# INDIA COUNTRY REPORT

*Following the seizure of global credit markets the collapse of the stock markets, inflation reversed direction in India . Land and real estate prices tumbled and the real estate industry which was considered to be the darling of the stock markets got to be shunned. Building projects remain incomplete and prices tumble. As the recession impacts India , shopping malls are closing down, prices of automobiles are discounted price of airline tickets fell. India is in a deflationary condition. The Central banking authority has since that time reduced its lending rates to banks on two occasions and cut Reserve Requirements for the Banking System to release huge amounts of money into the economy. The airline industry is in a mess and virtually every airline reports massive losses. Some airlines such as Kingfisher have cut the salaries of pilots by one third, whilst Jet airlines lay off expat pilots.*

Fortunately the government's attempts focused on boosting Aggregate Demand with huge outlays on Infrastructure. The Central Bank acted in unison to keep interest rates at lower levels rather than increase them despite the increase in food prices. Our last report indicated that India 's planning commission revised downwards GDP growth to 7.5%. Since that time with the stimulation of the economy (as per advanced estimates) the Industrial sector is expected to grow 8.6% vs. 7.5% last year.

The Indian Leasing Industry did confront a drop in capital expenditures up through July 2009 when Indian corporates grew apprehensive about the economic down turn leading to a fall in orders and a dangerous build up in unsold inventory. Fortunately this depressive period is over and capital expenditures across the board have improved. Whilst in our last report we talked about the automobile industry suffering from discounted prices and shopping malls closing down this scenario has radically changed with a significant boom in the sale of automobiles in the Indian market to such an extent that the government in its recent budget was emboldened to increase excise duty by 8% on large cars. Coincidentally this morning's financial papers reported that *Alan mulally, the 64-year-old messianic chief executive of Ford Motor Co, aims to realise in India the dream of his company's legendary founder Henry Ford: opening up the highways for everybody.*

*The former Boeing executive, under whom Ford avoided the embarrassment of having to seek a US government bailout that rivals General Motors and Chrysler had to avail of, is a fan of India's "frugal engineering" capabilities and plans to make the country Ford's small car hub. In a departure from the past, Ford also plans to bring all its models into India , attempting to catch up with rivals and gain greater traction in the red-hot Indian car market..*

Audi the high end German Car manufacturer whilst hurting from a fall in demand in Europe concentrates its attention on selling cars in India , and has been extremely successful.

The economic recovery has not been exactly “Roses all the way”, as the foregoing optimistic report is clouded by poor performance in the Agricultural Sector which is expected to report a decline of 0.2%. Resultantly, supply side inflationary pressures are actively felt in the market and have led to double digit primary country inflation rate. Although the government is severely embarrassed by its inability to manage the price of vital food commodities in parliament the Finance Ministry and the Central Banking authority have not reacted in a knee jerk manner to immediately raise the cost of money by hiking bank rates as mature realization has dawned that no extent of interest rate hike will be able to increase supply of food grains because India experienced this year its worst ever monsoon in 30 years.

The banking system’s Non Performing Assets significantly increased by 30% for the calendar year ended December 31, 2009 from a year ago due to the world wide economic slow down, causing lower profits for banks and a restriction on credit exposures to sectors that accelerated NPAs. Reportedly the sectors that have contributed to these bad loans are real estate, exports and even retail loans. A number of private banks have already curtailed their retail lending especially personal loans.

There may well be a trend for India to consider a bias in favour of smaller banks as the government and regulators were taken aback by recent international experience when banks were considered too big to fail and had to be bailed out with huge amounts of tax payer money, reportedly the Royal Bank of Scotland required an emergency injection of government money amounting to GBP 20 BN and that too in the first stage of its bail out. Whilst the real estate giant Hypo Real Estate was bailed out on October 5, ’09 at a cost of Euros 50 BN. The numbers are staggering.

This may explain why India’s recent budget announced on February 26, 2010 government willingness to entertain bank licenses for leading non banks owned by large industrial houses such as the Tatas, the Birlas and the Ambanis.

India’s approach to developing a more balanced banking sector is not restricted to encourage smaller banks, that need not necessarily be bailed out if they are irresponsible but to also attempt a consolidation of larger Indian banks so that we get fewer but financially more substantial banking operations and not have to revisit the dangerous path of leverage ratios of 30:1 or 60:1 ever again.

Additionally India appears to be taking robust steps to grow its Micro finance Industry which again is an attempt to replace the present status quo of large banks with smaller financial organizations that cater to inclusive growth of the agricultural population and not just to the development of India’s key metro cities.

The budget visibly recognized the need for increasing aggregate demand by significantly reducing the tax impact on individual tax payers so that with more money left in the hands of 250 – 300 MN people aggregate demand may be stimulated to benefit Corporate Profits and Employment.

This budgetary blessing was well received by the stock markets and the price level in both the sensex BSE & NSE improved almost immediately.

The increasing price of crude oil has left its foot print on India because the government was compelled to raise the price of both petrol and diesel to mitigate huge losses incurred by government oil companies who were compelled to sell petroleum at domestic prices well below international prices.

India is well positioned to continue to achieve high rates of GDP growth relative to western economies during 2010 as also 2011 and may even achieve double digit growth for the next decade which could probably lead to a large inflow of international capital.