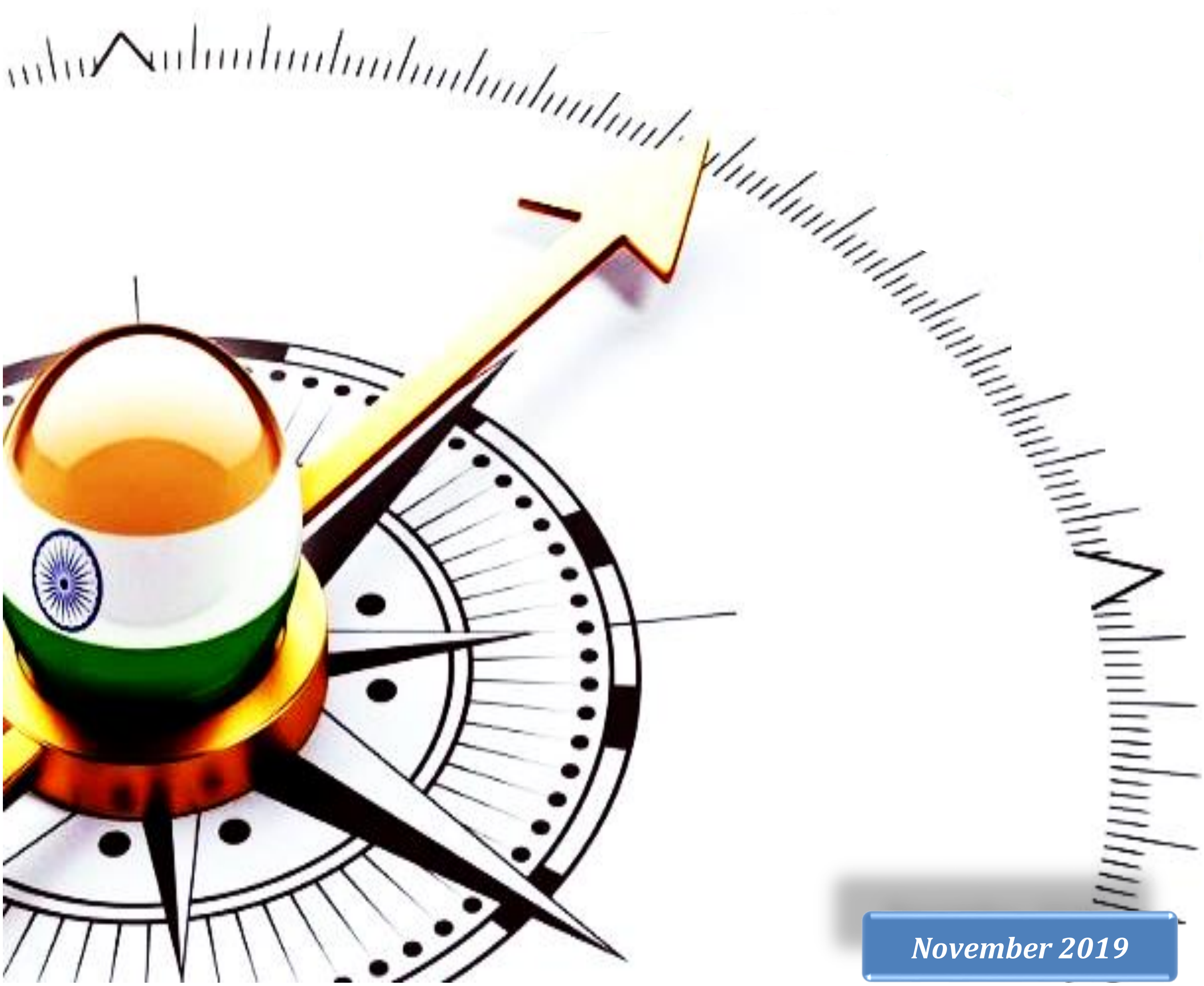
2019 Economic Outlook



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MAS

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Overview

India has emerged as the fastest growing major economy in the world and is expected to be one of the top three economic powers of the world in next 10-15 years. The estimate for 2018-19 was 11.5%. During Q1 of 2019-20, GDP (at constant 2011-12 prices) grew by 5%. India has been able to retain its position as 3rd largest startup base in the world with over 4,750 technology startups. Some of the key highlights that the country experience in the year 2018-19:

Ease of Doing Business Index

India jumped 23 places in the World Bank's Ease of Doing Business Index 2018 and got 77th rank. The maximum improvement was of 129 places in construction permits to reach 52nd rank in 2018 as compared to 181st in 2017.

Goods and Services Tax (GST)

A unified consumption tax on all goods and services except electricity, petroleum products and alcoholic drinks was implemented by the in July 2017. The monthly collection of GST crossed INR 1 lakh crore in October 2018 however, it dropped to INR 97,637 crore in November 2018.

Foreign Direct Investment (FDI)

FDI equity inflows in India in 2019-20 (till August) stood at US$ 19.33 billion, indicating that government's effort to improve ease of doing business and relaxation in FDI norms is yielding results. The net FDI stood at US$ 1.8 billion in August 2019 and US$ 3.8 billion in July 2019. India invited US$ 2.73billion of FDI in August 2019 as compared to US$ 2.54 billion in previous year. Data for Q1 2019-20 indicates that the telecommunications sector attracted the highest FDI equity inflow of US$ 4.22 billion, followed by service sector US$ 2.79 billion, computer software and hardware US$ 2.24 billion, and trading US$ 1.13 billion. Most recently, the total FDI equity inflows for the month of June 2019 touched US$ 7.28 billion. During Q1 2019-20, India received the maximum FDI equity inflows from Singapore (US$ 5.33bn), followed by Mauritius (US$ 4.67 bn), Netherlands (US$ 1.35 bn), USA (US$ 1.45 bn), and Japan (US$ 0.47 bn).

Demonetization hampered GDP Growth

The demonetization of INR 500 and INR 1,000 notes done in November 2016 had a variety of motives including wiping out the black money from the country, making people to pay taxes for the unaccounted cash locked away, prevent terrorism and to promote digital finance and a cashless economy. This step caused lot of disruption in the Indian economic growth. According to RBI reports, 99% of the money has been deposited back, which tells that most of the black money was not stored in form of cash. RBI reports suggest that demonetization may not have affected black money hoarding but has increased tax compliance. However, the impacts are being faced by MSMEs that used to deal mainly in cash and were not prepared for such a situation.

Unemployment

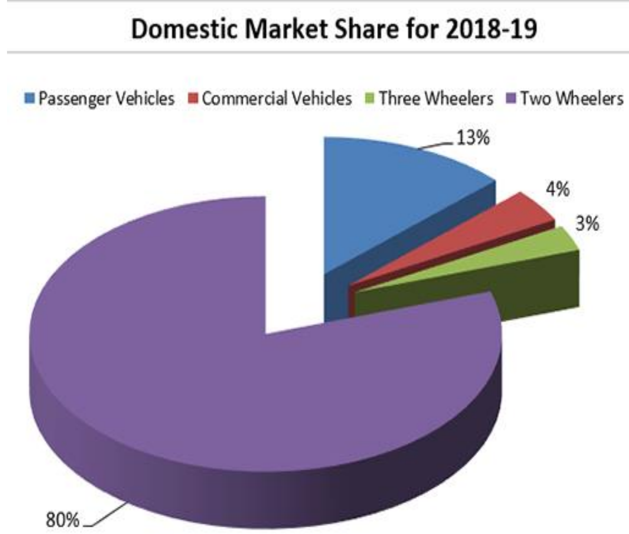
The Centre for Monitoring Indian Economy (CMIE), estimated that nearly 1.5 million people lost jobs between January and April 2017. The unemployment level has been steadily rising with youth unemployment being a very high. This rate of unemployment is the highest seen in India in at least the last 20 years.

Stock Market Falls

On 8th November Sensex closed 330.13 points or 0.81% in the red at 40323.61, and the Nifty closed 103.80 points lower or 0.86% at 11908.20. Global markets had a good week as US markets rallied making new high on de-escalation of trade war with China. As a result, market sentiment was positive, which led to the BSE30 Index gaining 0.4% in the current week. On the economy front, Moody's downgraded India's rating to negative from stable, noting slowdown in the economy. FPIs bought equities worth USD 782 million over the past five trading sessions while DIIs sold USD 563 million worth of equities in the same period. Market sentiment is positive but valuations of large caps are almost fair.

Cash Liquidity

After demonetization, the cash flow has decreased in the Indian economy and this has led to lower cash liquidity in the market which in turn has caused organizations and individuals to face cash crunch. The cash deficit made a record of 1.4 lakh crore in October 2018. Liquidity deficits has resulted in increase in short term borrowing rates and forecasts higher future inflation.



(Image Courtesy: SIAM)

Auto Industry

Current Scenario

The automobile industry had a great ride in last year. Many companies saw a growth in sales thereby showing a positive upward arrow of the industry as a whole the country saw entry of other foreign players with the aim to steal a chunk of this market.

Production

The industry produced a total 30,915,420 vehicles including passenger vehicles, commercial vehicles, three wheelers, two wheelers and four wheelers in April-March 2019 as against 29,094,447 in April-March 2018, registering a growth of 6.26% over the same period last year.

Domestic Sales

- Passenger Vehicle-

  The sale of Passenger Vehicles grew by 2.70% in April-March 2019 over the same period last year. Within the Passenger Vehicles, the sales of Passenger Cars, Utility Vehicle & Vans grew by 2.05%, 2.08% and 13.10% respectively in April-March 2019 over the same period last year.

- Commercial Vehicles-

  The overall Commercial Vehicles segment recorded a growth of 17.55% in April-March 2019 as compared to the same period last year. Medium & Heavy Commercial Vehicles (M&HCVs) increased by 14.66% and Light Commercial Vehicles grew by 19.46% in April-March 2019 over the same period last year.

- Three wheelers –

  The sales of three wheelers registered an increased by 10.27% in April-March 2019 over the same period last year. Within the three wheelers, Passenger Carrier sales registered a growth of 10.62% and Goods Carrier grew by 8.75% in April-March 2019 over April-March 2018.

- Two Wheelers-

  It saw an increase in sales at 4.86% in April-March 2019 over April-March 2018. Within the Two Wheelers segment, Scooters declined by -0.27%, whereas Motorcycles and Mopeds grew by 7.76% and 2.41% respectively in April-March 2019 over April-March 2018.

Domestic Market Share for the year 2018-2019	Percentage share
Passenger Vehicles	13
Commercial Vehicles	4
Three Wheelers	3
Two Wheelers	80
Grand Total	**100**

Exports

In April-March 2019, overall automobile exports grew by 14.50%. While Passenger Vehicles exports declined by (-) 9.64%, Commercial Vehicles, Three Wheelers and Two Wheelers registered a growth of 3.17%, 49.00% and 16.55% respectively in April March 2019 over the same period last year.

Fall in sales after seeing a growth

India's domestic passenger vehicle's sale is falling from last ten months till August 2019, showing a decline of 31.57%, according to data released by the Society of Indian Automobile Manufacturers (SIAM).

Let's see a few factors behind the fall in sale

- **Fuel prices-**
  From August 2015 to August 2019 the price of petrol has jumped by 15% as per data provided by the state-run Indian Oil Corporation. Also, in addition to such hike in prices government also raised the excise duty on petrol and diesel by INR 1 during the 2019 Union Budget.
- **GDP Slowdown** –
  India's gross domestic product has dipped down to 5%, a 6-year low in the June quarter. Consumption collapsed to a 54-month low which fell to 3.1% from 10.6% in the March quarter.
- **Job uncertainty –**
  According to the International Labor Organization, there were approximately 18.6 million Indians without a job in 2018 and this is estimated to go up to 18.9 million by end of this year. The fall in employment is reducing the purchasing power of the people and they are not willing to spend their money on luxury items such as cars.
- **Motor Vehicles Act –**
  The Motor Vehicle Amendment Act, 2019 was passed by the Parliament was made effective from September 1, 2019. The act was amended with the motive of adherence of traffic rules by the drivers. Stricter rules and heavy penalties, risen by four to ten times compared to their previous levels, were introduced which resulted in a purchase deterrent.
- **High interest rates, stricter security –**
  RBI, over past several months, has reduced the repo rates and increased the SLR in order to increase the lending power of banks but despite these banks have failed to pass on the benefits to the consumers as the banks have been extra vigilant in granting loans due to the high susceptibility of a default. Therefore, car loan growth has remained poor.
- **High insurance and registration cost –**
  Mandatory multi-year purchase of third party insurance has pushed the cost of ownership of cars higher. Buyers now have to buy three-year insurance instead of one year and the icing on the cake was the increased registration fees for vehicles by 13 times by the Centre.
- **Taxation –**
  In anticipation of a cut in the Goods and Services Tax (GST), existing cars buyers have held back their purchase, as per carmakers. The industry has been seeking a cut in GST to 18% from 28%.

The government, however, has not shown much positivity towards this.

A segment-by-segment analysis revealed that entry-level car sales crashed by more than 56% in the first five months of 2019.

The production of passenger vehicles (segment under PV) fell by 19.13% in April-August 2019 over the same period last year, while the sales in the segment declined to 29.41% for April-August 2019, as per SIAM data.

On a year-on-year (YoY) basis, the sales under the passenger vehicles category was down 31.57%, from 287,198 units recorded during August 2018 to 196,524 units in August 2019. Another factor that is discouraging the buyer from spending their money is the double-digit rise in purchase price, even at the time when industry expected a boom from the festival season. As per industry experts, the prices of entry-level cars have gone up by 14-24% in the last 2 years.

Many vehicle manufacturers are closing down or temporarily taking non-performing products off production lines. This slowdown is likely to continue to until BS6 norms are introduced in next year when manufacturers will be bringing new and updated production. Additionally, the subsequent drop in demand by the rural market, increase in insurance cost and lack in availability of finance has also affected the entry-level cars segment, as per SIAM's quarterly review.

Other factors such as non-availability of policy on vehicle scrappage, no GST benefits on IC engine vehicles, coupled with slowing consumption reflects the broad-based slowdown of the auto industry in India, the world's fourth-largest auto market. The experts in the industry are likeminded when it comes to GST rate cut and believe that there is an urgent need for the government to reduce the GST from 28% to 18%. At the 59th Siam Annual Convention, Mr. Guenter Butschek, CEO & MD, Tata Motors said, "As industry, we need to have 'One Voice' on technology play." and later added that, "In order to get out of the current crisis and not to miss the festive season, we require clarity from the government, here and now, on GST and scrappage policy."

No GST rate cuts for automobile industry

The automotive industry had already raised red flags on the sales hitting an all-time low in the country and this at a time when the BS6 transition was just around the corner. The industry knew that it would face a lot of problems with BS4 inventory and hence had recommended to the Finance Ministry as also the GST Council to reduce the GST rates on cars from 28% to 18% which might help them to clear up the stocks of BS IV engines. However, there's no such relief provided.

There were no GST rate cuts announced and that means there will be no change in the price of cars and bikes comprising BS4 engines. SIAM President, Mr. Rajan Wadhera, stated that the auto industry was very hopeful of GST reduction and now the company has to find its own way to combat the slowdown. He said, "It is clear that there is no reduction of GST rate on vehicles, from 28% to 18%”. The sub-segment of 10-13 seaters, which is of less than 4 meters, has seen reduction in GST Compensation cess, which is a long pending request of SIAM and is a positive step by the Government. SIAM had requested for abolishing compensation cess for the whole segment of 10-13 seater vehicles, however, the benefit has been partially met. The industry has to find its own balance to enhance demand. However, it's not all bad news for the auto sector. The Finance Minister has proposed reduction in the corporate tax rate to 22% from 30% and eliminated the minimum alternate tax for companies that are not availing incentives under the income tax act thus giving a big boost to Make-In-India as also the automobile industry.

Entry of MG and Kia motors

India's auto sector market is one of the most competitive markets of the world where about 68% market share is captured by top two of the total 16 manufacturers. Seven PV makers, mostly foreign manufacturers, have one or less than one% market share despite being in the market for over a decade. Industry experts believe that Kia Motors and MG Motor stand a good chance as the Indian UV market has grown by 2% in FY19 at 941,461 units compared to 922,322 units in FY18. Out which 70% market is covered by SUV within INR 15 lakhs.

The Indian automobile market is being dominated by Maruti Suzuki and Hyundai capturing almost 70% of the total market. MG Motors is a subsidiary of $128 billion Chinese giant Shanghai Auto Industrial Corporation (SAIC) which has decided to disrupt the Indian market by aggressively pricing their products. It began its journey in 2017 when it bought General Motors' Halol plant in Gujarat when the latter exited India's domestic market. MG Motors received an overwhelming response from Indians as 28000 bookings were made so much that they had to temporarily close their bookings. By 2022, the motor company hopes to introduce 5 products in the Indian Market and planning to invest INR 5,000 crore. There is another new entrant in the market which goes by the name of Kia motors.Kia Motors Corporation, commonly known as Kia Motors, headquartered in Seoul, is South Korea's second largest auto mobile manufacturer after Hyundai. Kia Motors Corporation president H W Park firmly believes it's the right time to enter the country that remains the strongest among large global economies. The company eyes 5% market share in the county with annual sales of 300,000 passenger vehicles within three years.

Telecom Industry

Current scenario

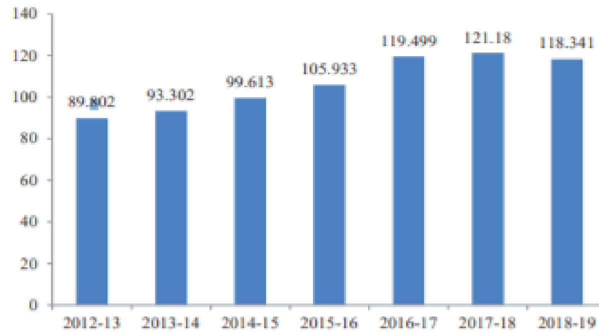
India is currently the second largest telecommunication market and has the second highest number of internet users in the world. India's telephone subscriber base has expanded at a CAGR of 17.44%, reaching 1,206.22 million during past 10 years. Tele-density (defined as the number of telephone connections for every 100 individuals) in India has increased from 18.3% in FY07 to 92.84% in FY18. Total telephone subscriber base and tele-density reached 1,183.15 million and 89.92%, respectively, at the end of April 2019. The share of the wireless segment in India's telecom market has increased over year. The wireless segment comprised 98.17% as of March 2019 and in May 2019 it reached 98.2% of telephone subscriptions as compared to 95.90% in FY11. Similarly, share of rural subscribers in total telephone subscribers has hiked as telecommunications penetration has increased in the market.

Rural subscribers form 43.46% of total telephone subscribers as of March 2019 and 42.9% in May 2019, compared to 33.35% in FY11. Wireless subscriptions have also seen significant growth consistently over the past few years. Between FY07-18, wireless subscriptions in the country increased at a CAGR of 19.61% to 1,183.41 million. Wireless tele-density of India has increased more than five times from 18.23% in FY07 to 92.84% in FY18. At the end of May 2019, wireless subscriptions stood at 1,161.86 million while wireless tele-density reached 88.31%.

After the analysis of wireless segment let's have a look on the performance of broadband subscriptions. The number of broadband subscriptions in the country increased at a CAGR of 60.03% during FY07–18 and reached 412.60 million. Number of subscriptions stood at 581.51 million, as of May 2019 which is indicating towards a constant growth in this segment. The broadband segment can be sub-divided into two segments wired and wireless segments. The number of wired broadband subscriptions stood at 18.45 million at the end of May 2019. Wireless broadband subscribers stood at 563.06 million, at the end of May 2019. Also, there the number of internet users in the country increased at a CAGR of 41.58% during FY06-FY18 to reach 636.73 million in 2018-19.

Internet subscriptions in India surpassed the 500-million mark by the end of June 2018. At the end of December 2018, internet subscriptions reached 604.21 million. Overall IP traffic is expected to grow 4-fold at a CAGR of 30% by 2021. India is the largest consumer of mobile data in the world. Total wireless data usage in India grew 119% year-on-year to 15,850,560 terabytes between January-March 2019. Indian telecom sector's gross revenue grew from US$ 32.05 billion in FY08 to US$ 33.97 billion in FY19. Figure showing Total Telecommunication connection (in crores).

Gross revenue of the telecom sector stood at INR 237,416.60 crore (US$ 33.97 billion) in 2018-19. Indian telecom sector's revenue is expected to grow by 7% in FY20 backed by stabilizing tariff wars and increased spending by subscribers due to minimum recharge plans.



Source: Ministry of Telecommunications

The rise of any sector is a positive sign for overall economy as it increases job opportunities in the country. Also, it increases inflow of funds in government treasure both in form of tax and foreign direct investments. Here's how the telecom sector's performance in some indices.

Jobs

Over 4 million people are employed by the telecom industry- directly and indirectly. The rise of employment opportunities in this sector are expected to be created because of government's efforts to increase penetration in rural areas combined with the rapid increase in Smartphone sales and rising internet usage. Rise in mobile-phone users in conjunction with reduced data costs are expected to add 500 million new internet users in India over the next five years. With increasing subscriber base, there have been a lot of investments and developments in the sector. According to the data released by DIPP, the industry has been able to attract FDI worth more than US$ 30 billion during the period April 2000 to March 2018 and, contributing 6.5% to India's GDP.

Investment/Major development

With daily increasing subscriber base, there have been a lot of investments and developments in the sector. FDI inflows into the telecom sector during April 2000 – March 2019 totaled to US$ 32.82 billion, according to the data released by

Department for Promotion of Industry and Internal Trade (DPIIT).

Some of the developments in the recent past are:

- During the first quarter of 2018, India became the world's fastest-growing market for mobile applications. The country remained as the world's fastest growing market for Google Play downloads in the second and third quarter of 2018.
- Bharti Airtel is planning to launch 6,000 new sites and 2,000 km of optical fiber in Gujarat in 2018-19.
- The number of mobile wallet transaction increased 5% month-on-month to 325.28 million in July 2018.
- As of June 2018, BSNL is expected to launch its 5G services by 2020.
- Vodafone India and Idea Cellular have merged into 'Vodafone Idea' to become India's largest telecom company, as of September 2018.

Government's initiatives

- Department of Telecommunication launched 'Tarang Sanchar' - a web portal sharing information on mobile towers and EMF Emission Compliances.
- Six-fold increase in Government spending on telecommunications infrastructure and services in the country – from INR 9,900 crores (US$ 1.41 billion) during 2009-14 to INR 60,000 crores (US$ 8.55 billion) (actual + planned) during 2014-19.
- Over 75% increase in internet coverage – from 251 million users to 446 million
- Country-wide Optical Fibre Cable (OFC) coverage doubled – from 700,000 km to 1.4 million km
- Five-fold jump in FDI inflows in the Telecom Sector – from US$ 1.3 Billion in 2015-16 to US$ 6.1 billion in 2017-18 (up to December 2017)

Important aspects

- **Emergence of Broadband Wireless Access (BWA) Technologies**
  - The most significant recent developments in wireless communication include BWA technologies such as WiMAX and LTE
  - In March 2018, Bharti Airtel launched its VoLTE services in Kolkata while Vodafone launched its VoLTE services in Jaipur and Jodhpur.
  - BSNL is expected to launch its 5G services by 2020.

- **Internet of things (IoT)**
  - IoT is the concept of electronically interconnected and integrated machines, which can help in gathering and sharing data. The Government is planning to develop 100 smart city projects, where IoT would play a vital role.
  - Reliance Jio has partnered with Samsung Electronics to setup a nationwide Internet of Things (IoT) network
  - As of August 2019, Jio's IoT platform is expected to be available from January 2020

- **Consolidation**
  - Vodafone India and Idea have merged into Vodafone idea. Vodafone Idea is unifying assets and aims to complete network integration by June 2020.
  - Airtel's acquisition of Tata Teleservices' mobile business was given approval by Competition Commission of India (CCI) in November 2017. As of December 2018,

the deal was cleared by the National Company Law Tribunal (NCLT).

- **Optical Fiber**
  - Reliance Jio Info communication is going to expand its optical fiber network to over 1,100 cities under its Jio Giga Fiber brand. In August 2019, commercially launched Jio Giga Fiber as wired broadband service.
  - In January 2019, Himachal Futuristic Communications Ltd (HFCL) decided to expand its optical fiber cable (OFC) manufacturing capacity to 10.5 million fkm from 7 million fkm.

The market dominator

- The telecom sector is being dominated by the two merged giant i.e. Vodafone and Idea despite of the fall in subscribers. For May 2019, Vodafone Idea still tops the food chain with an overall market share of 33.36%, thereby retaining the lead. But, the king wasn't crowned for long as Jio surpassed it and came out with the largest subscriber base as of June, 2019. Formerly, the trend showed a price war between all the big players namely Reliance Jio, Airtel, Vodafone-Idea
- However, it has all been good news for Reliance Jio that marked a growth in market share. Reliance Jio has now gained the largest market share followed by Vodafone-Idea. This was despite the fact that unlike Airtel and Vodafone, Reliance Jio didn't alter its pricing for its plans. Most of its prepaid plans have remained unchanged for a long time with same old benefits which have existed for many months now.
- The predatory pricing of Jio has helped them gain the current market status and also the concept of providing the customer with all the services as one package as proved to be the most attractive concept among the users.
- Apart from the telecom sector, the broadband sector has also seen some activity. Reliance Jio now leads the market with a share of 55.5% when both the wired and wireless broadband services are considered. Bharti Airtel falls behind with a share of 20.35% whereas Vodafone Idea has a share of 18.75%. BSNL only captures an overall share of 3.75% market share.

5G in India

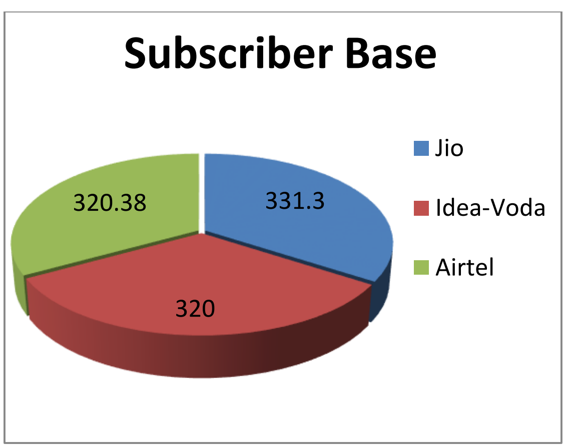
5G or Fifth Generation mobile technology, with its improved capabilities to transmit data more efficiently and at higher speeds, is all set to be a game changer for Indian telecom consumers by next year. In a country where millions of users face common problems of call drops and poor data connectivity 5G can provide them with a resolution to such problem by offering uninterrupted service and unlimited bandwidth. Indian telecom players are tightening up their belts for the auction of 5G spectrum in the country. But, there are some major issues that have been pointed out by the Broadband India Forum (BIF) the issues that were raised by the President of BIF were Inadequacy of quantum of 5G spectrum clubbed with high reserve prices. The present 5G reserve price (3.5 GHz band) at INR 492 crore per MHz is also significantly in deviation with international norms which is approximately 5 to 6 times higher than other countries and needs urgent revision.

Since, 5G is going to be a redresser of the problems with current network such things need huge amount of money. Telecom operators, including Airtel, Reliance Jio and Vodafone Idea will have to invest $30.5 billion to roll out 5G services in the country, according to an analysis done by UBS. Bharti Airtel may have to invest

USD2 billion annually whereas the capital expenditure for Reliance Jio would be relatively lower due to its larger tower footprint and higher proportion of towers on fiber backhaul, compared with Bharti Airtel and Vodafone Idea. The government is planning to allocate 5G spectrum via auctions in 2020.

Injury to other players

On August 13, 2019 Reliance Jio's announcement at the company's annual general meeting (AGM) about it becoming India's top most telecom company in terms of revenues, profits and subscribers resulted in decline of share price of Airtel by almost 7% while the price of share of Vodafone-idea dropped by 10%. Recently, Reliance Jio announced its subscriber base that stood at over 331.3 million. This was higher than Vodafone Idea's subscriber base of 320 million and Bharti Airtel's 320.38 million at the end of the June quarter. However, on September 30, 2019 amid the rumors that Jio may increase the tariff in the coming months other telecom players such as Airtel and Vodafone-Idea gained from the news. The share price of Airtel rose by 5.29% whereas the share price of Vodafone-idea jumped by 9.03%. The overall Telecom index rose by 4% by the end of the day.



At the end of June-2019 Quarter
(Figures in millions)

Interconnect Usage Charge (IUC)

Recently Reliance Jio has made an announcement which made its loyal customers unhappy the decision of charging 6 paise per minute interconnect usage charge (IUC) from every customer who connects with a service provider other than Jio.

When the reason for such a charge was asked Mukesh Ambani made a statement in which he said that it was compelled to start charging its over 350 million users to recover the 6 paise a minute interconnect usage charge (IUC) which it has to pay to other telecom companies but they have tried to compensate for the same by giving additional 1 GB data. IUC is a charge paid to the telecom company on whose network a call terminates.

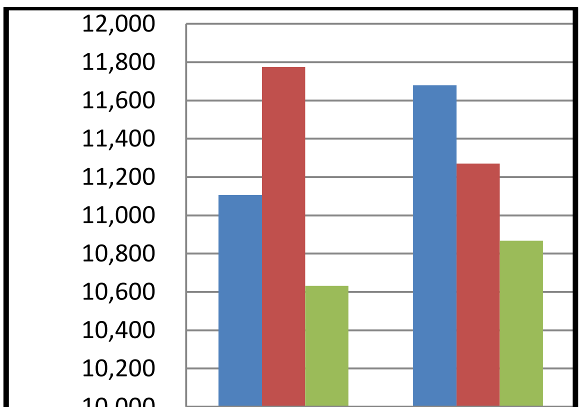
IUC Top-Up Voucher Amount (INR)	IUC Minutes (non-Jio mobiles)	Free Data Entitlement (GB)
10	124	1
20	249	2
50	656	5
100	1362	10

Reliance Jio introduced its broadband plans a few days back and it was seen that the plans which were introduced were not with the intension to disrupt the current market and increase its customer base but now that the giant is focusing on increasing the average revenue per user.

Currently, Jio is a net payer of IUC, while Airtel and Vodafone Idea are net revenue gainers, based on voice traffic flow patterns. This attempt of the telco has faced a backlash such that the users are deciding to stop using the provider's services.

According to Jio, its network gets 25 to 30 crore missed calls on a daily basis from Airtel and Vodafone-Idea customers. Jio users then call back those on the other networks, since calling for them is free. Jio customers ended up making many more calls than they receive, meaning Jio has to pay much more in interconnect usage charges than it receives. The company claims it paid INR 13,500 crore in these interconnect payments to other networks over the last three years.

With this announcement the share price of Vodafone-Idea and Airtel saw a jump as these heavily indebted companies would start receiving significant amount of cash flows and help clear up their balance sheets. Despites the fact Jio has grown exponentially over the years and has kept its customers satisfied the decision to charge extra from its customers have not been well received. Below is a chart showing comparative figures of three telco giants.



	Revenue- Jan to March, 2019	Revenue- April to June, 2019
Jio	11,106	11,679
Voda-Idea	11,775	11,270
Airtel	10,632	10,867

Graphical Presentation of comparative analysis of Revenue for the quarter Jan to March, 2019 and April to June, 2019

Retail Industry

Current Scenario

Total consumption expenditure is expected to reach nearly US$ 3,600 billion by 2020 from US$ 1,824 billion in 2017. Indian retail is one of the fastest growing markets in the world. Retail industry has reached to US$ 950 billion in 2018 at CAGR of 13% and expected to reach US$ 1.1 trillion by 2020. India is the world's fifth largest global destination in the retail space. Retail market in India is projected to grow from an estimated US$ 672 billion in 2017 to US$ 1,200 billion in 2021F. The modern retail market in India is expected to grow from US$ 13.51 billion in 2016 to US$ 26.67 billion in 2019. FMCG market expected to increase to US$ 103.7 billion by 2020 from INR3.4 lakh crore (US$ 52.75 billion) in FY18. The boost in this sector can be attributed to the increase in participation of foreign and private players. India's online retail sector has shown a growth of 23% to US$ 17.8 billion in 2017.

Market Size

Retail market in India is projected to grow from an estimated US$ 672 billion in 2017 to US$ 1,200 billion in 2021F. Online retail sales are forecasted to grow at the rate of 31% year-on-year to reach US$ 32.70 billion in 2018.

India is expected to become the world's fastest growing e-commerce market, driven by robust investment in the sector and rapid increase in the number of internet users. Various agencies have high expectations about growth of Indian e-commerce markets.

Luxury market of India is expected to grow to US$ 30 billion by the end of 2018 from US$ 23.8 billion 2017 supported by growing exposure of international brands amongst Indian youth and higher purchasing power of the upper class in tier 2 and 3 cities, according to Assocham.

Amazon's deal with Future Coupons

On August 22, 2019 Future Group announced that the e-commerce giant Amazon will acquire 49% stake in Future Group owned company Future Coupons. If the deal materializes it could give Amazon roughly 3.6% stake in Future Retail, which operates Big Bazaar and retail outlets such as Easy Day and Heritage Fresh. Let's have a look how this deal can be beneficial for both the parties:

For Amazon,

- Future Coupons is engaged in developing value-added products which can be used for payments and solutions such as corporate gift cards, loyalty cards, and reward cards for corporate and institutional customers.
- Enhancement in Amazon's portfolio
- Amazon with this acquisition will gain nominal stakes in Future Group which it can capitalize to compete with Walmart.

For Future Group,

- It may increase its presence in the digital payment space.
- The deal may help the Future Group in competing with India largest retailer Reliance.

Agriculture Industry

Current Scenario

India is the largest producer of spices, pulses, milk, tea, cashew and jute; and the second largest producer of wheat, rice, fruits and vegetables, sugarcane, cotton and oilseeds. India is currently the world's fourth largest producer of agrochemicals. India has the largest livestock population of around 512 million.

There are almost 20 agri-culture climatic conditions in the world of which 15 types are present in India. The country also has 46 of the 60 soil types in the world. Growth in Gross Value Added (GVA) by agriculture and allied sectors is estimated at 3% in 2017-18. Strategic geographic location of India and its proximity to food importing nations supports India in terms of exporting the processed foods. Consumer spending in India is likely to reach US$ 3.6 trillion by 2020. Private final consumption expenditure (at constant prices) saw a rise by 6.1% in 2017-18 and 8.6% in April-June quarter of 2018-19. In 2018-19, Government of India is targeting food grain production of 285.2 million tons.

During 2017-18 crop year, food grain production is estimated at record 284.83 million tons. In 2018-19, Government of India is targeting food grain production of 285.2 million tons. Milk production was estimated at 165.4 million tons during FY17, while meat production was 7.4 million tons. As of September 2018, total area sown with kharif crops in India reached 105.78 million hectares. India is the second largest fruit producer in the world. Production of horticulture crops is estimated at record 314.7 million tons (mt) in 2018-19 as per third advance estimates.

Total agricultural exports from India grew at a CAGR of 16.45% over FY10-18 to reach US$ 38.21 billion in FY18. In FY2019 agriculture exports were US$ 38.54 billion. India is also the largest producer, consumer and exporter of spices and spice products. Spice exports from India reached US$ 3.1 billion in 2017-18. Tea exports from India reached a 36 year high of 240.68 million kgs in CY 2017 while coffee exports reached record 395,000 tons in 2017-18. Also, the food & Grocery retail market in India was worth US$ 380 billion in 2017.

Below are the comparative results of the agricultural produce in India:

Crop	For 2011-2012	For 2017-2018	2018-19 (as of Jun 3, 2019)
Rice	105.30	112.76	115.63
Wheat	94.88	99.87	101.20
Total Cereals	242.20	259.60	260.15
Total Pulses	17.09	25.42	23.22
Total Food grains	259.29	285.01	283.37
Total Oilseeds	29.79	31.45	31.42
Sugarcane	361.04	379.90	400.36
Cotton (million bales of 170 kg each)	35.20	32.80	27.59
Jute & Metsa (million bales of 180 kg each)	11.40	10.03	9.79

Foodgrains and Commercial Crops Production (million tons) Source: IBEF

National Agricultural Market (NAM)

A scheme for the promotion of National Agricultural Market (NAM) has been introduced by the central government involving all the farmer and traders in the regulated markets with a common e-commerce platform for a transparent, impartial trade of agri-commodities.

GST is crucial for creating a path regarding the successful implementation of NAM. Most of the agricultural commodities are perishable in nature. An improved supply chain mechanism due to GST would reduce the time taken for inter-state transportation.

Achievements in the sector

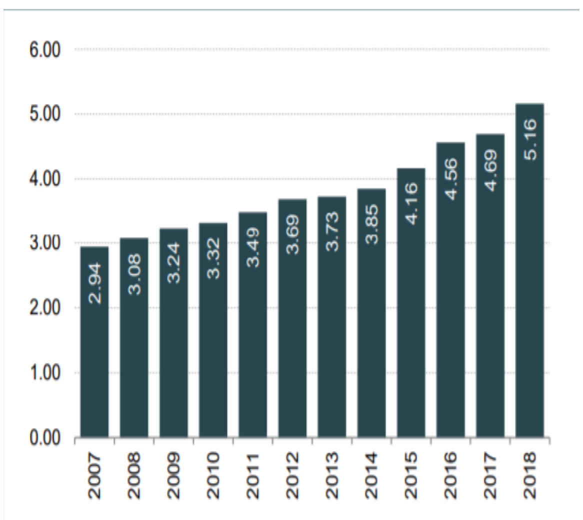
- As of March 15 2019, Sugar production in India has reached 27.35 million tons (MT) in 2018-19 sugar season according to the Indian Sugar Mills Association (ISMA).
- The Electronic National Agriculture Market (eNAM) was launched in April 2016 a unified national market for agricultural commodities by networking existing APMCs.
- Up to May 2018, 9.87 million farmers, 109,725 traders were registered on the e-NAM platform. 585 mandis in India have been linked while 415 additional mandis will be linked in 2018-19 and 2019-20. The Electronic National Agriculture Market (eNAM) was launched in April 2016 to create a unified national market for agricultural commodities by networking existing APMCs. Up to May 2018, 9.87 million farmers, 109,725 traders were registered on the e-NAM platform. 585 mandis in India have been linked while 415 additional mandis will be linked in 2018-19 and 2019-20.
- Agriculture storage capacity in India increased at 4% CAGR between the years 2014-2017 to reach 131.8 million metric tons.
- Coffee exports reached record 395,000 tons in 2017-18.
- Between the year 2014-2018, 10,000 clusters were approved under the Paramparagat Krishi Vikas Yojana (PKVY).
- Between 2014-15 and 2017-18 (up to December 2017), capacity of 2.3 million metric tons was added in godowns while steel silos with a capacity of 625,000 were also created during the same period.
- Around 100 million Soil Health Cards (SHCs) have been distributed in the country during 2015-17 and a soil health mobile app has been launched to help Indian farmers.

Oil & Gas Industry

Current Scenario

India is the world's third largest consumer of energy around the globe. Demand for primary energy in India is expected to rise three times by 2035 to 1,516 million tons of oil. Diesel demand in India is expected to double to 163 million tons (MT) by 2029-30. The oil and gas industry is on a boom and the players are investing in this sector to cater to the growing demand. The industry is expected to attract US$ 25 billion investments in exploration and production by 2022.

Refining capacity in the country is expected to increase to 667 MTPA by 2040. The FDI limit for public sector refining projects has been raised to 49% without any disinvestment or dilution of domestic equity in the existing public sector units. In September 2018, Government of India approved fiscal incentives to attract investments and technology to improve recovery from oil fields which is expected to lead to hydrocarbon production worth INR50 lakh crore (US$ 745.82 billion) in the coming twenty years.



Oil Consumption in India (2008-18) (mbpd)

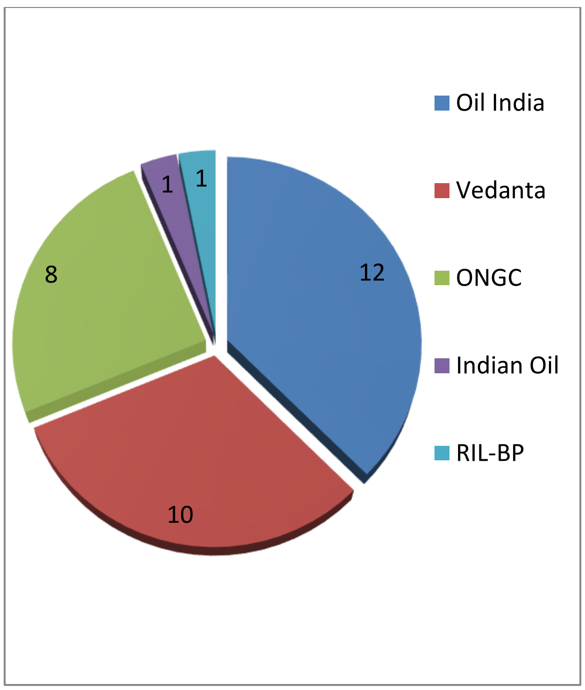
The consumption of oil in the country has increased by 5.24% during the year 2007-18 and reached 5.16 mbpd by 2019. India's crude oil demand is expected to increase over 150% to 10.1 million tons per day by 2040. In FY19, total crude oil imports were valued at US$ 111.96 billion as compared to US$ 87.70 billion in FY18. In FY19, crude oil imports increased to 4.53 mbpd from 4.41 mbpd in FY18.

Auctions of Blocks

- Global major BP Plc. and its partner Reliance Industries (RIL) have come out as the winner of a block in the fresh round of auction under the Open Acreage Licensing Policy (OALP). This means the re-entry of RIL into domestic exploration and production after it stopped bidding for acreages in India. The block BP and RIL have won is said to be on the east coast. RIL last won a block during the seventh round of auction under the New Exploration Licensing Policy in 2008. At present, RIL is operating in four blocks in India.
- According to multiple sources, state-run Oil India has got the maximum number of areas on offer, winning 12 blocks — six each in both the second and third OALP rounds. The government is likely to give its clearance for allotting the blocks to successful bidders this week. The two rounds were initially estimated to attract an investment of INR 80,000 - 90,000 crore. The Anil Agarwal-led Vedanta group, which had reportedly put in 30 bids, is expected to get five blocks each in OALP-II and OALP-III.
- During OALP-I, Vedanta was the most aggressive bidder, winning 41 of the 55 blocks on offer. An industry source said the Directorate General of Hydrocarbons (DGH) had shortlisted the list of winning bidders after

evaluation and is waiting for the government's final clearance, likely this week, to sign the contracts.

- Oil India has emerged as a winner of 12 exploration licenses ahead of Vedanta who won 10 and ONGC who won 8. The above data is according to the list of winners published by Directorate General of Hydrocarbons (DGH) under the second and third round of auction under Open Acreage Licensing Policy (OALP).
- The government received 75 bids for 37 blocks which were offered for bidding in second and third round. In the second round 14 blocks received 33 bids while in third round 23 offered blocks received 42 bids. Also, 5 coal bed methane blocks were offered for bidding but failed to attract any bidder.
- In the first round of auction 55 blocks were offered and Vedanta had bid for all 55 blocks and successfully bagged 41 blocks.



Here is a pie chart showing number of blocks won by different players:

- The government has now moved to round IV of OALP Bid Round which launched on August 27, 2019 the Bid submission open date being August 27, 2019. The last date of Bid submission October 31, 2019. The government has offered 7 blocks for bidding.
- Let's have a look on the results of first three rounds: Vedanta has won 10 blocks — five each — in second and third rounds. Earlier, Vedanta had been awarded 41 out of 55 blocks on offer in the first round. Although 37 blocks were on offer in second and third rounds — 14 under the OALP-II and 23 under OALP-III — five of them found no bidders.
- State-run Oil India Limited (OIL) won 12 blocks-six each in second and third rounds. In the first round, OIL had won 9 blocks.
- India's largest crude oil and natural gas company — the Oil and Natural Gas Corporation (ONGC) — won 8 blocks in second and third rounds. Last time, ONGC had only won two. The Indian Oil Corporation (IOC) also won a block.
- To be noted, Reliance Industries Limited (RIL), in partnership with BP Plc., also won one block. As it is clear from the results that the major investors in this lucrative sector are all India based companies not even a single block has been awarded to any foreign company. Why the foreign investors are reluctant in investing in this sector?

Companies	**Wins**
Vedanta	51
Oil India	21
ONGC	10
IOC	1
RIL-BP	1

Privatization of BPCL

India is the fastest-growing large oil market globally, and the government has rightly decided to leverage India's huge oil demand to gainfully seek foreign funding for BPCL. Oil usage in transport may well drop sooner rather than later, as the internal combustion engine gives way to the electric motor. The effort should be to invite global oil majors like Saudi Aramco and France's Total to bid for BPCL, with its 38 million tons of refining capacity and at least 25% share in domestic fuel retailing. Business standard said that the government may take decision on selling their entire stake of INR 40,000 crores.

The Repealing and Amending Act, 2016 has annulled 187 obsolete and redundant laws lying on the statute books. In the process, the laws, under which oil companies HPCL and BPCL were nationalized, were also annulled. These included the Esso (Acquisition of Undertakings in India) Act, 1974, The Burmah Shell (Acquisition of Undertakings in India) Act, 1976, and the Caltex (Acquisition of Shares of Caltex Oil Refining (India) Limited and of the Undertakings in India of Caltex (India) Limited) Act, 1977. On 30 September, the group of secretaries on disinvestment gave its approval for to sell government's entire 53.29% stake in BPCL, which is likely to be completed by March 31, next year. On 7th October, 2019 after the day cleared its way in the process of privatization the shares of BPCL dropped down by more than 7% and this happened twice in a row which means that the market is not responding positively to this decision of privatization. The international Credit Rating Agency Moody's warned claiming that BPCL's credit rating may fall with the government's decision of privatization.

Currently, being a state-owned enterprise, BPCL has a BBB- rating which is on par with sovereign rating. Ba1 rating will be equal to its current baseline credit assessment. Last year, the government had sold its entire stake in HPCL to state-owned ONGC but the oil marketer still enjoys BBB- rating considering ONGC ownership by the government. "If the government sells its entire stake to a non-government-owned company, we will no longer include the support from the government in BPCL's ratings. As a result, we will likely downgrade it to Ba1, assuming there are no changes to the fundamental credit profile including our assessment of liquidity and refinancing risk," the agency said.

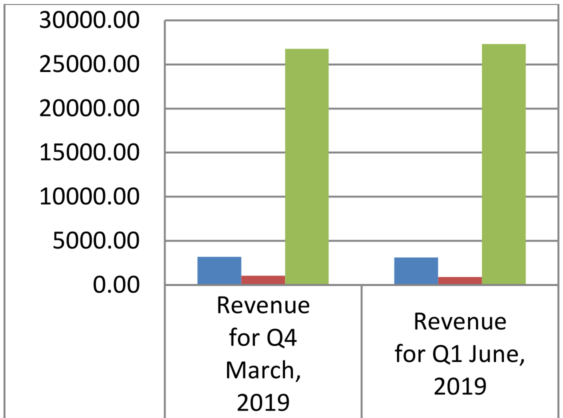
Freedom on setting up Gas Prices

Gas pricing has been a contentious theme for years and the government has a challenging task of balancing the interest of the producers and consumers which is a difficult task as both of their interest are mirror images each other. Increased price of gas will help the producers by enhancing their profitability and on the other hand if the prices are raised it will directly affect the consumers' kitchen budget. It's a thin line to walk on. In the previous years have been introducing new licensing rules offering all the explorers to market and setting the price of the natural gas. Any attempt at lifting price restrictions would result in a fierce opposition from the consuming industries as well as retail customers such as those using gas piping in kitchen or in vehicles.

Performance charts

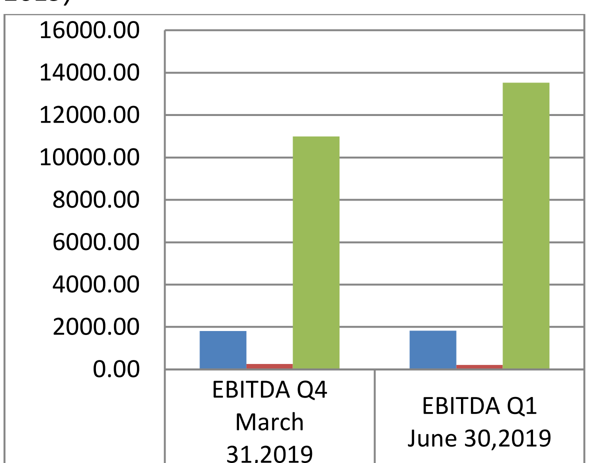
Below are some bar diagrams that show a clear picture of performance of different O&G companies. These charts will also help to see a clear comparison of the major companies operating in the sector.

Below bar diagram showing the comparative analysis of Revenue (For quarter ending March 31, 2019)



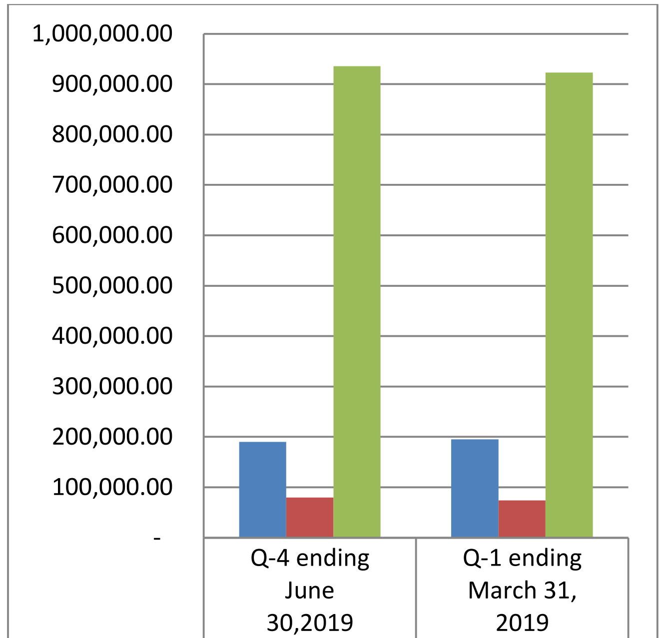
	Revenue for Q4 March, 2019	Revenue for Q1 June, 2019
Vedanta	3175.00	3131.00
RIL	1069.00	923.00
ONGC	26758.46	27302.24

Below bar diagram showing the comparative analysis of EBITDA (For quarter ending June 30, 2019)



	EBITDA Q4 March 31,2019	EBITDA Q1 June 30,2019
Vedanta	1805.00	1825.00
RIL	258.00	207.00
ONGC	10995.97	13529.73

Below bar diagram showing the comparative analysis of Production per day (units in boepd)



	Q-4 ending June 30,2019	Q-1 ending March 31, 2019
Vedanta	190,172.00	194986.00
RIL	79,447.41	73,949.32
ONGC	935418.95	923186.02

Conclusion

After looking at the performances of the different key sectors of the country it can be said that the year 2018-19 was a rough time for the country but still there are hopes for its recovery and growth.
Some of the major issues that the country is facing which is directly or indirectly creating a hurdle in the economic growth are mentioned below:

- **NPAs in Banking System**
  NPA aka non-performing assets are the loans given by banks to companies that remain unpaid. According to RBI, the gross NPA in Indian Public Sector banks are valued at INR. 400,000 crore comprising 90% of the total NPA in India. NPA have risen by 6.2 lakh crore between March 2015 and March 2018.

- **IT Sector Job**
  India's IT sector saw a job offer decline of 17%. The IT sector saw major employee lay-offs and a decline of 2.7% in the number of new jobs created. This further added to the already piling unemployment statistics in the country.

- **GDP Growth**
  The annual GDP growth rate of India has been falling for the past 2 years from 8.2% in 2015 to 7.1% in 2016 and further reducing to 6.6% in 2017. While the annual GDP seems to be on a rise, to 2.6 lakh crore USD in 2017 from 2.27 lakh crore USD in 2016, the growth rate seems to be declining. However, the first quarter of 2018-19 saw a growth rate of 8.2%, the rate fell to 7.1% in the third quarter, much lower than the expected growth rate.

Future of Indian Economy

Higher farm sector productions, higher contribution to GDP by Manufacturing sector, making India stand up with the concepts of Startup India and Stand up India, introduction of water transport, creating better road and rail network, higher FDIs are expected to make Indian Economy grow faster in future. The employment generation in India is also expected to go up as there are lakhs of jobs are going to be offered in next two years to skilled and unskilled work force in different sectors in India.

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