

State of the Economy and Options for Tamil Nadu



CII TN State Council : 1st Dec 2017 @ Coimbatore

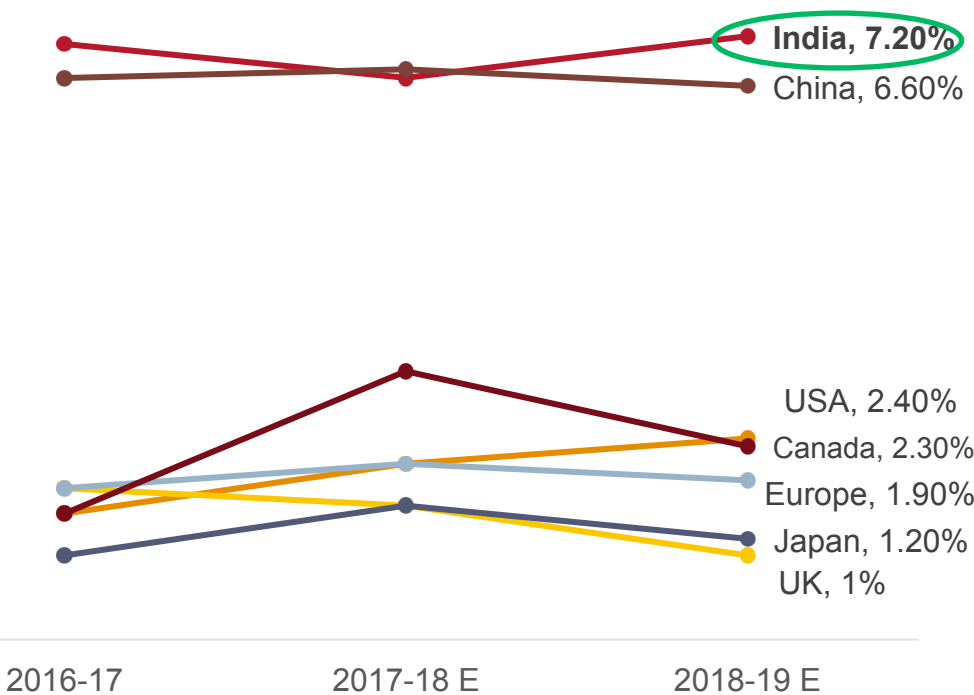


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Businesses can't go wrong if they bet on the India growth story . . . even more so in the long run

India - Long term Outlook

India is currently one of the fastest growing economies in the world, and expected to keep the high growth in 2017-18 too...



...and it is expected to become the world's second largest economy in terms of GDP at PPPs, by 2050

Country/ Region	Share of world GDP (PPPs)		
	Current (2016)	Expected (2050)	Change
China	18%	20%	↑
USA	16%	12%	↓
EU27	15%	9%	↓
India	7%	15%	↑

At 15% share, India's global ranking increases to No 2 after only China, followed by USA & Indonesia

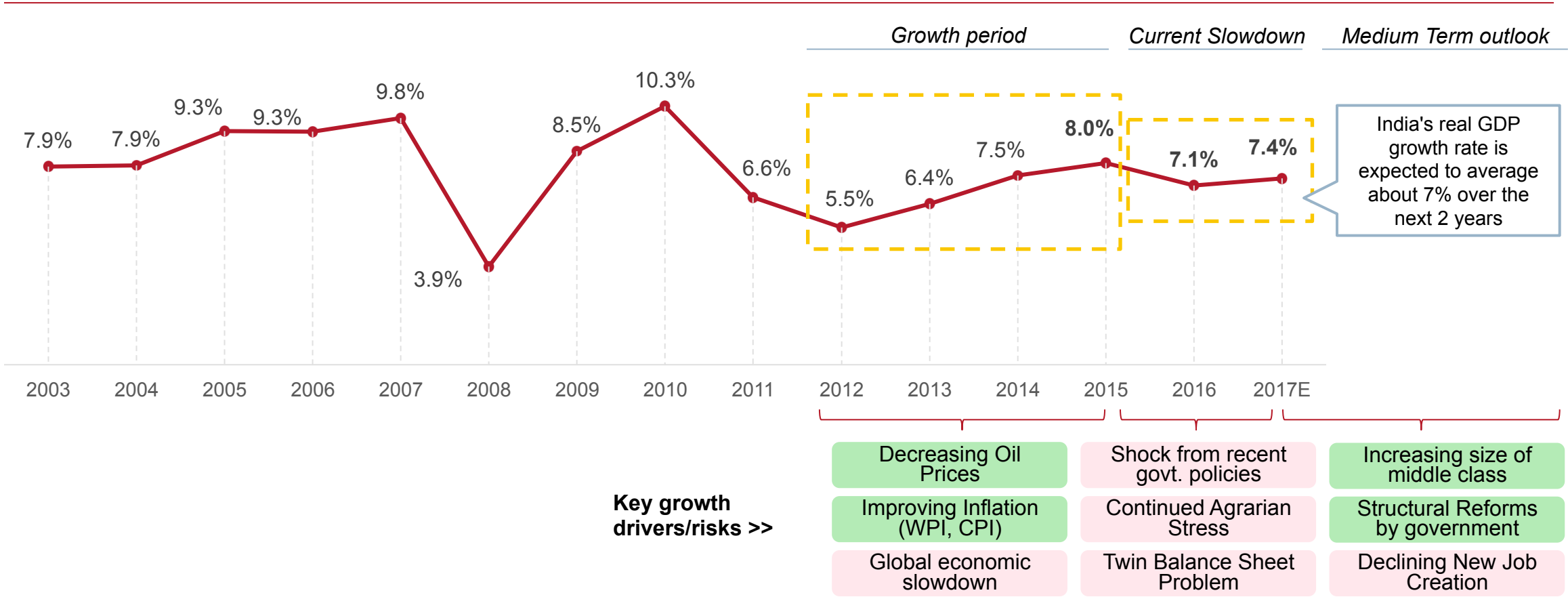
- According to 'The World in 2050' report, India will outpace the United States to emerge as the **second largest economy in purchasing power parity (PPP) terms by 2040**
- Among the 32 largest economies in 2016 **India is expected to grow the second fastest (per capita) over the next 3 decades.**
- **But to achieve this growth of ~6.4% annually until 2020, India requires sustained economic reforms and increased investment in infrastructure, institutions and mass education**

The long term outlook for the Indian economy, and the shift in economic order towards China and India are important considerations for businesses to develop their global strategies. It will be important for global firms to understand customer dynamics as emerging markets become more mature and sophisticated, and pivot their marketing strategies accordingly

Despite current troubles, near term outlook is good if businesses can manoeuvre “big bang” reforms; and focus on the “India consumption” story

India - Economic Overview

India – Real GDP Growth Rate (2003-2017)



Between 2012 and 2015, India had a growth spell with GDP growth reaching 8%, supported by the falling oil prices, but post that, India is facing a slowdown with GDP revised downwards to 7.1% in 2016, due to multiple internal / external factors; Medium term outlook remains positive.....

Source: OECD, WEF, Deutsche Bank, Avalon Consulting Research and Analysis

“Twin balance-sheet problem” can derail the growth story and needs to be managed

India - Twin Balance Sheet Problem *(some figures are trickling in that 2017-18 is not better)*

Overleveraged companies cutting investments...

₹ **18 Trillion** | **7 year high**

Net debt of 288 companies with a market capitalization of more than \$500 million (covering most big firms in India)

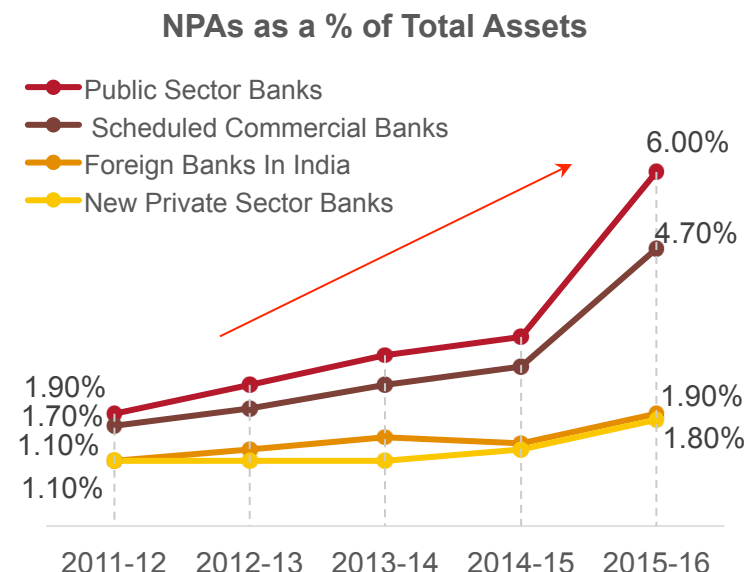
20% and rising

Indian companies (of a total of 513) that have an interest coverage ratio of less than 1 *(likely closer to 40% in 2017)*

lowest since **1953-54**

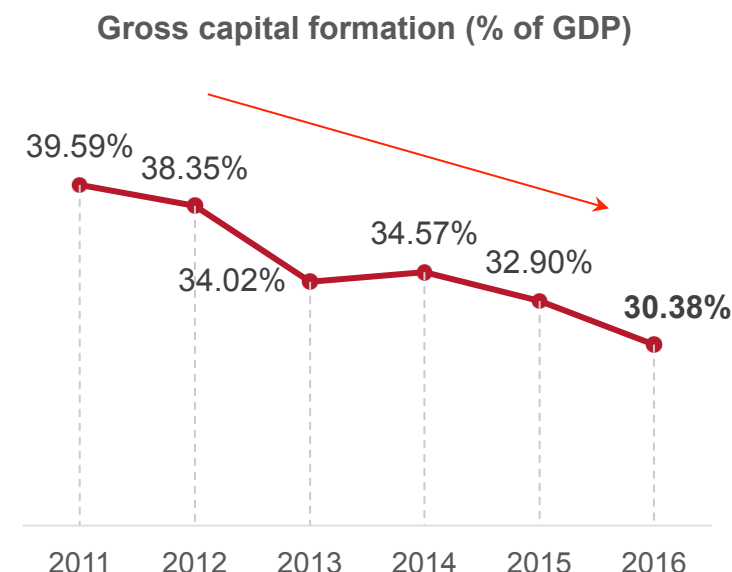
The pace of new loans (on an annual basis) in the 2016-17

...Banks encumbered with non-performing assets scaling back credit



Vicious cycle - loans are not growing for fear of more bad loans and unless the cycle is broken banks cannot make enough profits *(early figures - NPAs up to 9% with 12% for PSU Banks in 2017)*

...causing a reduction in private investment in the economy



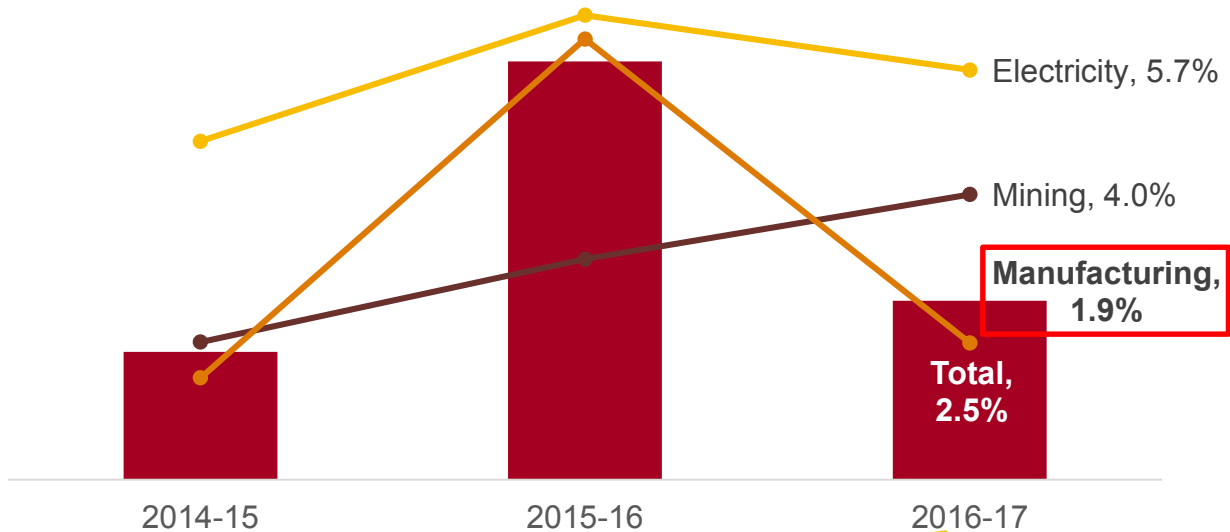
To achieve the optimum rate of economic growth, the rate of capital formation should be above 40%

Bank interest rates are unlikely to reduce significantly until stressed assets from bank portfolios are eased. The government wants the RBI to cut rates to stimulate investments but fear of increasing inflation dampen the chances of a rate cut. Banks may choose not to pass on the entire benefit even in case of a rate cut if there is no relief on stressed portfolios

India's Industrial Production trends are not encouraging

India - Industrial Production Trends

India's Industrial Production (IIP) (Apr-Sept)



- **September 2017:** India's IIP grew only 3.8% in September 2017 over the corresponding figure for September 2016
- **August 2017,** IIP growth hit a 9 month high at 4.3% (over Aug 2016), but this was probably **due to re-stocking affect after the GST** implementation, since it has decreased again in September 2017

Sectors of highest de-growth:

	Change (YoY Apr-Sept)
Manufacture of electrical equipment	-14.9%
Manufacture of tobacco products	-11.7%
Manufacture of beverages	-7.2%
Manufacture of paper and paper products	-6.0%
Manufacture of rubber and plastics products	-5.9%
Manufacture of fabricated metal products, except machinery and equipment	-5.6%

Sectors of highest growth:

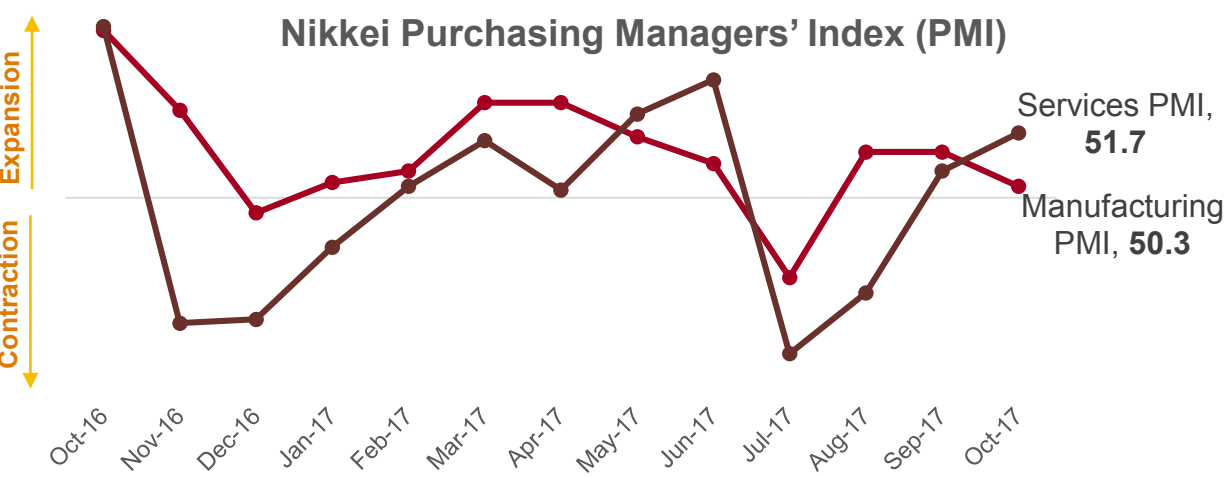
	Change (YoY Apr-Sept)
Manufacture of pharmaceuticals, medicinal chemical and botanical products	22.9%
Manufacture of computer, electronic and optical products	9.4%
Manufacture of other transport equipment	9.0%
Manufacture of motor vehicles, trailers and semi-trailers	4.7%
Manufacture of machinery and equipment n.e.c.	4.2%
Manufacture of basic metals	3.1%

With a slowdown in the manufacturing sector, the government may provide incentives for companies under the 'Make in India' campaign. Tobacco may not see an improvement with higher taxes, but other sectors for capital goods and infrastructure-related products like cement may get a boost

Good news...business sentiment and India's image as a potential investment destination have improved

India - Economic Recovery Lead Indicators

India's PMI indices have recently entered expansion phase, and the business sentiment is improving...



- According to the IHS Markit Business Outlook survey, there is an **improvement in business sentiment among both manufacturing firms and service providers in India**
- Net balance of companies projecting activity growth over the coming year (2017-18) stands at +23%, strongest since October 2016 (+25%)
- However, the level of **business confidence remains below the global average (+32%) and is the third lowest globally**

... and India has advanced on multiple world rankings, given various structural reforms in the economy

	2017-18	2016-17	2015-16	2014-15	2013-14
Ease of Doing Business	100	130	130	142	134
Global Competitiveness	40	39	55	71	60
Corruption Perception Index		79	76	85	94

Recent key reforms in current FY18 with structural implications:

Aadhaar (UIDAI)

Bankruptcy Law

Goods and Services Tax (GST)

New Codified Monetary Policy Framework

Business sentiment towards the economy is positive globally; Government is expected to roll out more reforms, especially with respect to improving EODB in the country; If structural reforms are properly implemented, the country could witness a rise in investments and FDI inflow

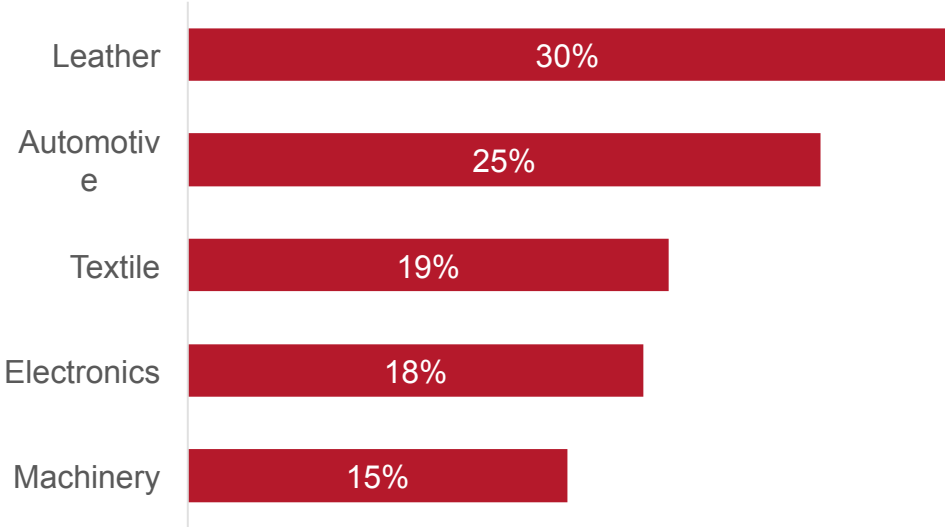
TN has strong fundamentals, and can continue to be a strong investment destination

Tamil Nadu - Economic Overview

	India		Tamil Nadu		Contribution	Rank
GDP	₹	1,25,41,000.00	₹	9,76,000.00	7.8%	2 nd
Exports	₹	20,15,000.00	₹	1,78,555.00	8.9%	3 rd
FDI Inflow	₹	3,62,251.22	₹	37,094.53	10.2%	4 th

INR Crores, 2014-15

Key Tamil Nadu Industries - Top contributors to India's economy



Tamil Nadu is ranked in the top 3 Indian states for overall competitiveness, on the basis of 4 main aspects: macroeconomic stability, government and institutional setting, financial, business and manpower conditions, and quality of life and infrastructure development ~ ACI (2016)

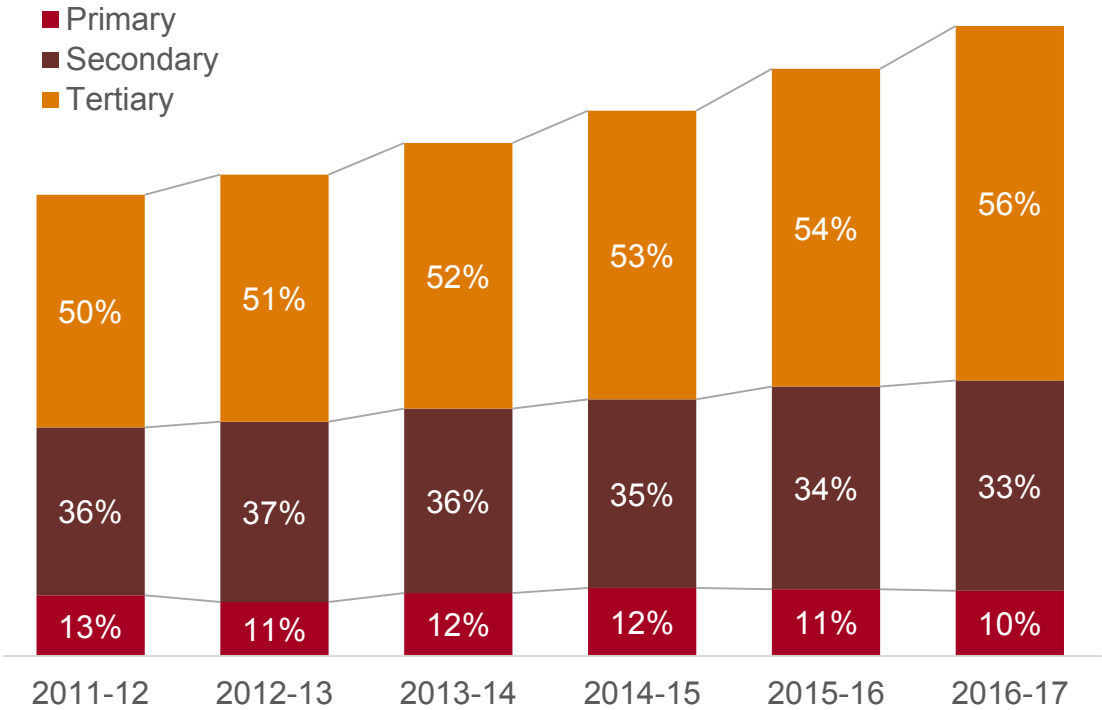
Tamil Nadu is India's second largest state by GSDP and a top contributor to the country's exports, FDI inflows and multiple industry outputs; TN was ranked third in competitiveness among Indian states by ACI.

Source: RBI, Investing TN, Asia Competitiveness Institute (ACI), Avalon Consulting Research and Analysis

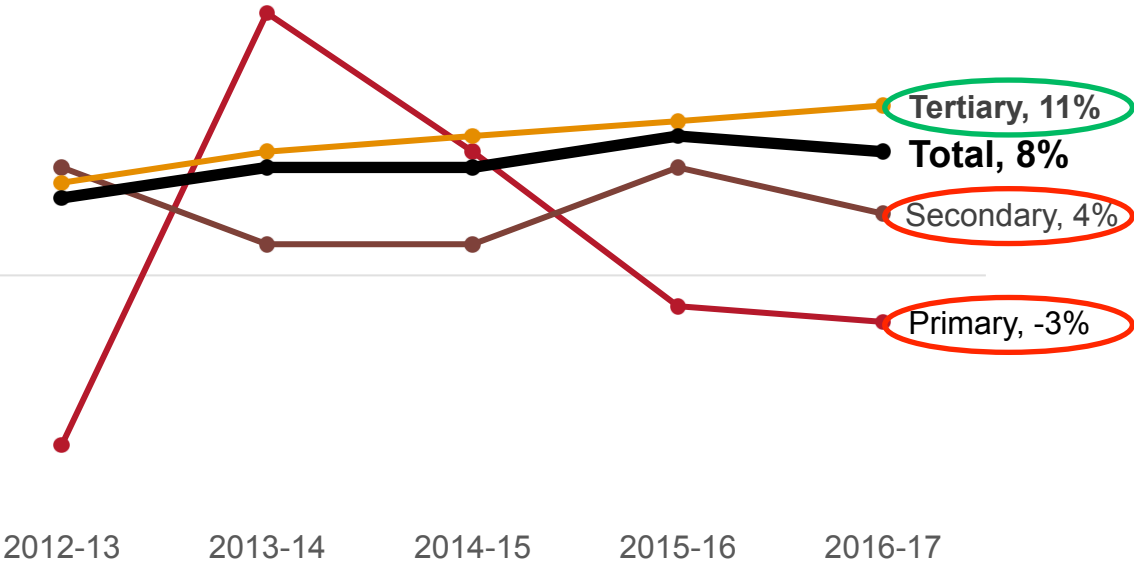
TN is propelled by double digit growth in services; challenges in manufacturing & agriculture hover

Tamil Nadu - Economic Growth

Sector wise GSVA at constant prices



Sector wise GSDP growth rate



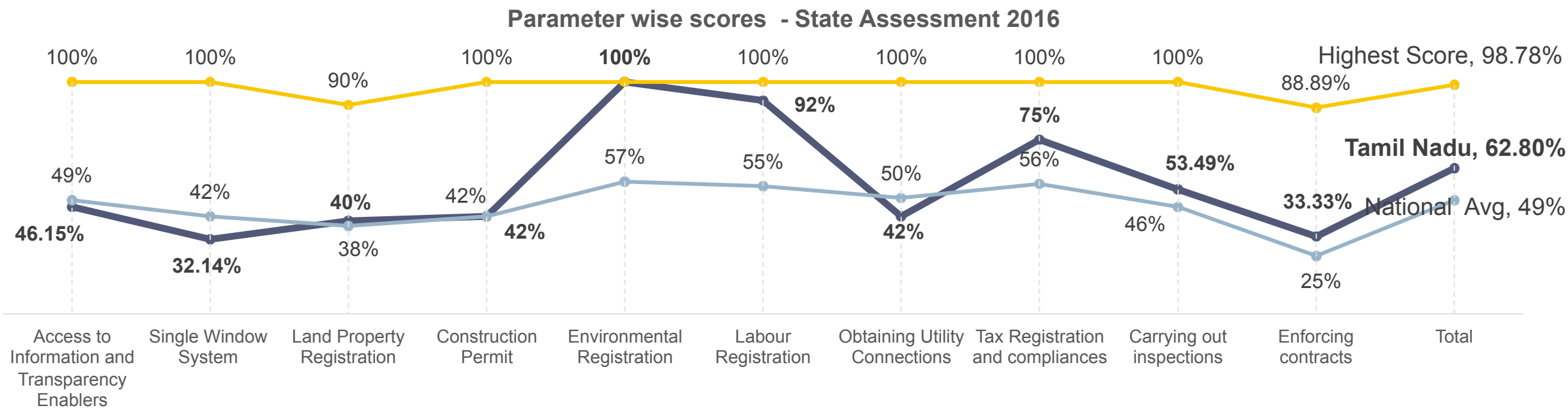
Services sector forms the largest share of the GSVA and is driving the state's overall growth despite the agriculture and manufacturing slump; Due to this dependence, **state can be effected by external factors** (trade, tourism, etc.)

Businesses in the state's services sector comprising of Real estate services, Hospitality and Logistics among others, can expect good growth if external sector risks can be managed; Manufacturing and Construction sectors need to see a turnaround; and Agriculture may remain volatile or subdued

TN can improve its relative ease of doing business – but will hygiene factors suffice to attract investment?

Tamil Nadu - Ease of Doing Business – Score and Rank

2015 **44.58% score** | **12th rank** → **62.80% score** | **18th rank** 2016



Tamil Nadu ranks **18th** in the state assessment ranking by DIPP, **down six places** from 2015-16; key areas of improvement include **Single Window System and Enforcement of Contracts**

What should be TN's game plan for attracting investment and developing a modern economy?

Who are the target investors for TN economy?	<p>Consolidate TN centric domestic investors?</p> <p>Attract investors from other states in India?</p>	<p>Attract investors from border states?</p>	<p>Consolidate TN centric MNCs?</p> <p>Participate in Chinese global expansion plans?</p>	<p>Become first choice for Japan/Korean investors?</p> <p>Nearby & Cultural ties (Malaysia, Sing, SL) ?</p>
Which are the focus sectors?	<p>Mature – Leather, Automotive, Textiles, Electronics, Machinery?</p> <p>Niches globally cost competitive (API, fine chemicals)?</p>	<p>Emerging – Renewables, Biotech & Pharma, Aerospace, Defence ?</p> <p>Niches – organic foods, water saving crops (millets)?</p>	<p>Niche services allied to TN manufacturing focus?</p> <p>Niche, globally cost competitive (Healthcare tourism)?</p>	<p>Mature services - Real estate, Hospitality, Logistics?</p> <p>Niche – digital tamil, traditional cuisines, heritage tourism?</p>
What are potential enablers to reduce cost of doing business and balancing quality of life ?	<ul style="list-style-type: none"> • Ensure reliable physical infrastructure (power, roads, communication, industrial parks, ports, irrigation, urban infrastructure and services, water supply, conservation, recycling, waste handling) • Ensure dependable social infrastructure (health care, education) – quality and affordable – improving quality and skill levels of labor available for industry • Balance industry needs & environment preservation (emission/effluent standards, policy support for environmentally friendly technologies (EV, “cleaner” fuels), water bodies, flora and fauna conservation, etc.) • Ensure policy framework and financial support for CSR, NGOs and civil society “volunteers” to supplement Government services • Reduce burden on urban infrastructure (e.g promote HSR corridors between large & small urban centers) 		<ul style="list-style-type: none"> • Ensure predictable future policy direction (sand mining ban) and tax regime (graduated property tax?) • Transparent regulatory framework for industry / Ombudsman oversight for public authorities & services • Reasonable entry standards for small & medium Govt / public projects to promote SME development • Provide SME assistance (e.g. subsidy in social security expenses for a period, consultation services (e.g. MITI Japan, model) to help SME entrepreneurs who are trying to become “organized” • Enforce priority sector lending for SMEs to reduce impact of usury and promote relevant financial institutions (e.g. co-operative banks & societies etc.) • Promote financial inclusion (e.g school children bank accounts & early access to loans and transfers) 	

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