BW BUSINESSWORLD

Are We Heading Towards A Dark Diwali Then?

BW Businessworld takes a close look at the slowdown blues, as India Inc. pins its hopes on the festive season, hoping it will kick-start the economy.

23 September, 2019
by Ashish Sinha

Did you know that "economic slowdown" was a dreaded phrase among government mandarins and their bosses (read ministers)? The government of the day is convinced that these two words do not depict a fair state of the economy. So, why use the expression? The economic data from the government, its analysis by experts including economists, however portrays a contrarian position. Is there an economic slowdown? "Yes, there is," chorus a host of experts. How bad is it? "Pretty bad", is the prompt response. Will the Diwali festivities help bring cheer to the market? "We certainly hope so," say most corporate honchos, almost in unison. So are we heading towards a dark Diwali? Let's find out.

Situation Analysis: Example No. 1

Place: Manesar (outskirts of Gurgaon)

Location: Small Auto Component Factory

Worker: Jamal (name changed)

Current Status: Out of work for two months

Situation Analysis: Example No 2

Place: Hapur (near Delhi)

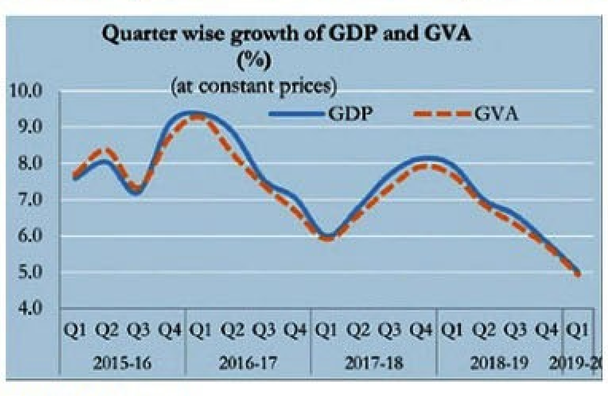
Location: Village Grocer

Worker: Ramesh Kumar (name changed)

Current Status: Reports 60 per cent dip in sales

The scenarios mentioned are very real. Not only are reports emanating of job losses in sectors like automotives, textiles, small factories etc., the rural demand for FMCG products is also declining across states. The salaried class (those still with jobs) have put a hold on spending. We meet Arun Iyer, a mid-level IT sector executive employed by a multinational in Gurugram, who recently became a father of three-month-old Ananya. "We wanted to buy a two-room flat somewhere in Gurgaon. My wife was looking forward to buying a new car this Diwali. Now with the kid and the overall economic insecurity, we have decided not to touch our savings. Taking a loan at this juncture is also out of question for us," says Iyer.

He is not alone. Kumar Rajesh, a 28-year-old HR professional employed in a private bank in Mumbai, echoes the same sentiment. "I see consumers enquiring about best savings plans every day. Personally, I wanted to upgrade from a bike to a small car this year. But I have decided against it for now. For me, it is a wait-and-watch situation," says Rajesh.



The economy

The focus on the state of the economy comes after the disclosure that the GDP growth rate had slumped to five per cent a 25-quarter low during the first quarter of the 2019 fiscal. In July, growth of eight core industries decelerated to 2.1 per cent mainly owing to a contraction in production of coal, crude oil, natural gas and refinery products, going by official statistics. These eight core sector industries coal, crude oil, natural gas, refinery products, fertiliser, steel, cement and electricity – had expanded by 7.3 per cent in July last year.

This July, coal, natural gas, refinery products and crude oil recorded a negative growth. In the April-July quarter, the eight sectors grew by three per cent compared to 5.9 per cent in the same period last year. What do these numbers say? All indicators point to slowing down of the economy for lack of demand, credit, and a host of other factors.

Industry experts, however, have been alerting us of the state of affairs. They have been shouting from the rooftops over the last several months about the impending drop in demand, poor consumer sentiments and deceleration of growth in the manufacturing sector – all of which led to a record dip in sales of passenger vehicles. Unsold houses, apathetic consumers, and to some extent, lack of trust in realtors, have also contributed to the dampening of the economic mood of the nation. Rajnish Kumar, chairman of the country's largest bank, the State Bank of India (SBI) has said, "The next two months will be crucial for the economy to see if there is a revival in demand." His statement came on the back of the poor GDP figures for the April-June quarter (that slumped to a low of five per cent).

"The next two months will be crucial for the economy to see if there is a revival in demand"

RAJNISH KUMAR, Chairman, State Bank of India

Come August, India's gold imports also plunged by around 70 per cent from a year ago, thereby hitting the lowest level in three years. Prices of gold soared to cross Rs 40,000 per 10 grams late in August. Rising gold prices is usally an indication that investors have lost faith in less safe havens. Global cues point to an overall economic slowdown world over. The US-China trade war is not helping market sentiments either.

Several economists say the decision to merge non-performing banks with anchor banks may turn out to be a fruitless move that could increase complications rather than achieve the intended objectives. Economists at India Ratings and Research (Ind-Ra) say a mixture of short and long-term measures are required for a pickup in demand. "Short-term boosts, especially during the festive season, may significantly help in increasing demand," says an economist from Ind-Ra. While the RBI has been active in responding to the ongoing slowdown by bringing down the repo rate to 5.4 per cent in August 2019, the latest EY Economy Watch for August shows that the economy has not responded to this stimulus as yet.

Job losses

According to the Centre for Monitoring Indian Economy (CMIE), India's unemployment rate has once again hit a three-year high of 8.4 per cent in August 2019. With this, India's unemployment rate is at its highest since September 2016. The real estate sector is estimated to have seen the exit of over 100,000 blue-collar employees already in the past nine months or so. If new projects don't take off, another lakh or so jobs are expected to go in the housing sector alone. The auto sector that employs over 3.43 crore people, including those in the ancillary business, has reportedly cut back on over a million jobs, mostly of contractual workers.

The industrial belts in Tamil Nadu, Jamshedpur, Baddi, Haridwar and several other clusters around the country, apprehend loss of thousands of jobs every month. According to one report, the MSME (micro, small and medium enterprises) sector has lost the maximum employees in the past three years. It needs to employ over five crore people immediately if the economy is to be pulled out of the morass it is in now, opine experts.

India's cotton-spinning industry has been struggling too, owing to a sharp decline in yarn exports, cheaper imports, state and central level taxes on exports and high interest rates. The slowdown in the textile industry has resulted in closure of factories, spinning mills and handloom units. The job losses are in thousands, as the sector employs 10 crore people, directly or indirectly. Its contribution to India's GDP exceeds two per cent.

Auto blues

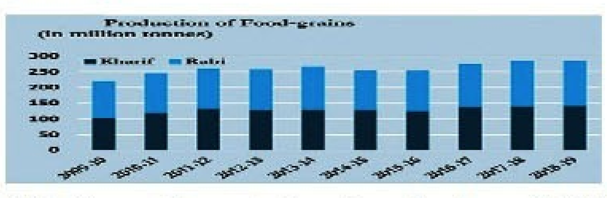
The automotive industry is perhaps going through its worst phase in recent decades where sales of passenger vehicles are slipping every month. Manufacturers of cars and two-wheelers, as well as makers of commercial vehicles are witnessing a drop in sales with each passing month. Predictably, falling sales have resulted in inventory pile ups. In the months ahead the pile up of unsold stocks will tantamount to lower production and the requirement of less workers and staff, leading to lay-offs and job losses.

Maruti and Ashok Leyland have already announced shut down days at their plants. More such announcements are expected from rival auto makers. Says Rajan Wadhera, President, Society of Indian Automobile Manufacturers (SIAM), "The sales report coming out from various companies for the month of August 2019 has been very dismal with over 30 per cent erosion of sales for passenger vehicles. The commercial vehicle and two-wheeler sales are also significantly negative indicating that the market has still not responded to the various measures initiated by the Hon'ble Finance Minister last month. The series of announcements on credit availability and reducing the cost of credit that were made, do not seem to have percolated down to the NBFCs which support the bulk of finance for the automotive industry."

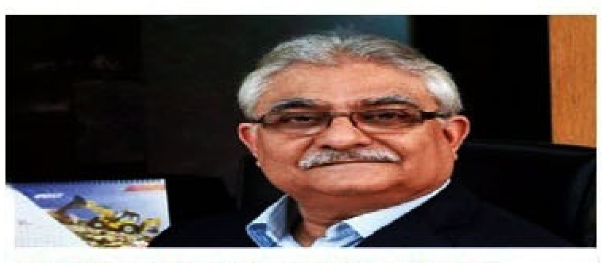
Will Diwali festivities help sales of vehicles? There are divided views within the industry. One view is that consumer sentiment continues to be low, and there is clearly a trust deficit in lending money to the dealers. "A cut in GST rates on cars will change consumer sentiments almost the next day. Nothing else will help," says R. C. Bhargava, Chairman of Maruti Suzuki, India's largest car maker.

"A cut in GST rates on cars will change the consumer sentiments almost the next day. Nothing else will help"

R. C. BHARGAVA, Chairman, Maruti Suzuki



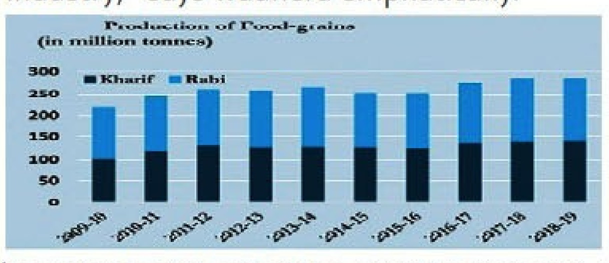
Will discounts and attractive deals work? "The ability of the industry to provide large discounts is limited," says Wadhera of SIAM.



"Sales reports coming from various companies for the month of August 2019 have been very dismal, with over 30 per cent erosion of sales for passenger vehicles. The commercial vehicle and two-wheeler sales are also significantly negative..."

RAJAN WADHERA, President, SIAM

So what needs to be done? Industry veterans say the need for the government to consider reducing GST rates from 28 per cent to 18 per cent would significantly reduce the cost of vehicles and in turn, create demand. Then there is also an urgent need to come out with an integrated incentive-based 'Scrappage Policy' covering all segments of the auto industry as already promised by the finance minister. As the festival season is around the corner, it is imperative that these decisions are taken quickly and announced without delay so that the industry may hope for a better festival season that could be a harbinger of a recovery in the industry," says Wadhera emphatically.



"In order to get out of the current crisis and not miss the festive season, we require clarity from the government, here and now, on GST and scrappage policy," says Guenter Butschek, CEO & MD, Tata Motors. Speaking at the SIAM convention recently, Butschek said, "The Indian growth story is too big to be washed away basis a few quarters of low demand. We as the industry need to win back the customers' confidence by being disciplined in our approach and consistent in our messaging. We need to make sure that we keep our customers' attention through product interventions, improving on TCO, and providing superior experiences." The Tata Motors MD expects SIAM to lead the discussions on the shift of reporting from wholesale to retail, in order to measure what finally gets on the road. "As an industry we need to have 'One Voice' on technology play," he said then.

Responding to a set of demands from the auto makers, the government recently announced a slew of measures, including clarification on the validity of BS4 vehicles (will remain valid through their natural life) and the future of Internal Combustion vehicles. The government decided to defer the proposed hike in vehicle registration fee. It also announced an additional 15 per cent depreciation benefit which will be valid for all vehicles bought between now and March 2020. It is expected to help clear the high inventory build-up at dealerships across the country.

Critics however, remain sceptical. Says Subrata Ray, Senior Group Vice President, ICRA, "It however remains to be seen how the auto demand recovers during the festive season and likely pre-buying in Q4 FY2020, in anticipation of post BS VI price hikes. The recent steps announced by the government is a positive for the sector. The liquidity support announced for the banking system and government spend on infrastructure can be a significant catalyst for the automotive industry." In its recent report ICRA said: "Beginning Q2 FY'19, the auto industry has been grappling with tough time and growth has slow downed."

The reason? The report states several reasons for it, including weak consumer sentiment across urban and rural markets due to weak farm inflows, subdued agri-commodity prices, rising cost of ownership as a result of regulatory changes on safety, emissions, vehicle registration, interest cost/EMI; tight liquidity situation among financiers, banks and especially NBFC segment; revision in axle load norms, slowdown in government spending on infrastructure and; uncertainty related to selection between BS-IV vs BS-VI among buyers and several more. The ICRA estimates the industry capex to be around Rs 5000-6000 crore and to be largely incurred for upgrading existing platforms, new models and BS VI. ICRA says the outlook for the industry "is stable".

Wadhera of SIAM says around 10 lakh contractual manufacturing jobs associated with the auto sector are at risk due to the consumption slowdown. If such fears do come true, then it is a worrisome sign for the overall economy. Why? Because the overall auto industry contributes to more than seven per cent of India's GDP.

"The company does not offer festive discounts, freebies etc."

MOHIT GOEL, CEO, Omaxe

Agri Woes

Continuous rains in 2019 have seen improvements in reservoir levels, but what will it do for crops standing in the fields? During the ongoing fiscal farmers have not received remunerative prices for their harvest. Support prices for essential grains and pulses continue to inch upwards on a year-on-year (y-o-y) basis. Prices of black gram (urad), beans, soyabean, pearl millets (bajra) and paddy are trading below the government-regulated minimum support price (MSP). Is it surprising then that rural consumer markets should reject biscuit packets priced at Rs 5?

The fate of most of the fertiliser industry hinges directly on the agriculture sector, so it is worthwhile to take a look at it too. A Prabhudas Liladhar report assess that "Total fertiliser sales is down 2.4 per cent to 17 million tonnes till the end of July, driven by a seven per cent decline in complex fertiliser sales (@ 2.6 million tonnes). Inventory has shot up 70 per cent for the industry to five million tonnes, led by a surge in inventory for all segments except urea and Single Superphosphate (SSP).

A Global Agricultural Information Network (GAIN) assessment report of the United States Department of Agriculture (USDA) says that India's bulk, intermediate, consumer-oriented, and agriculture related imports grew from $23.3 billion in 2013 to $30.2 billion in 2017, while exports declined from $45.6 billion to $38.4 billion during the same period.

Housing Sentiments

Has the government done enough to help the residential sector create more demand? "Yes, it has," believes Anuj Puri, Chairman, ANAROCK Property Consultants, a leading real estate consultancy firm. "This year, the government has already done a lot of the heavy lifting when it comes to sweetening the deal for homebuyers," Puri says, directing attention to the policy-induced impetus announced by the government recently to attract end-users. However, it is no secret that end-user sales alone will not suffice to revive an industry that has historically depended on healthy investor activity to drive the sales momentum.

Let's look at the past festive period to see the impact of festive seasons on home sales. For example, the festive quarter of 2015 saw 70,000 homes sold across seven major cities. But due to the demonetisation announced in November 2016, housing sales halved to 32,100 units in the fourth quarter. In 2017, post the roll out of RERA or the Real Estate Regulatory Act, the last quarter witnessed a 44 per cent surge in housing sales in 2018, virtually equalling the sales figures of the 2015 festive period.

Data available with PropTiger.com shows that in the October-December quarter of FY19, for instance, home sales increased by 30 per cent compared to the previous quarter. However, sales volumes decreased in the quarters that followed the festive season, says Dhruv Agarwala, Group CEO, Housing.com/Makaan.com/PropTiger.com. Data with PropTiger.com shows that over four lakh ready-to-move-in housing units lying unsold in nine major property markets are priced within the Rs 45 lakh bracket.

Investing in these units would allow additional savings in the form of an increased tax deduction limit of Rs 1.50 lakh on interest paid on a home loan as announced in the Budget in July. "The upcoming festive season could be an interesting period to take advantage of these factors as well as potential deals that might be available from developers," adds Agarwala.

"This year we have introduced a scheme in which buyers can get a free club membership and win a prize worth Rs 4,00,000 in a lucky draw at Alpha International City and also will get lucky enough to win Iphone X and Paytm cash as part of our referral scheme. At MeerutOne, we have launched a scheme where the buyers can get free interior worth 2.5 lakhs and acquire various on spot festive schemes. This offer is going to be an exclusive opportunity for the buyers as they will also get a chance to win attractive prizes in the lucky draw," says Ashish Sarin, CEO, AlphaCorp. He says the company is quite optimistic of higher sales in the festive season ahead.

Manoj Gaur, MD, Gaurs Group, says his company did record booking of over 1000 units worth around Rs 400 crore during the last year's festive season in projects like Gaur City and Gaur Saundaryam located at Greater Noida West and also in Gaurs Siddhartham in Siddharth Vihar (Ghaziabad) and Gaur Yamuna City at Yamuna Expressway. "This year, with positive sentiments in the market and new exciting offers coming up, we are expecting better results than last year," says Gaur.

There are non-believers of the festive cheer too. Take for example Mohit Goel, CEO, Omaxe, a prominent north India realty brand. He says his company's products are competitively priced and they speak for themselves in terms of quality and value for money. "The company does not offer festive discounts, freebies etc.," he adds.