SUMMARY

- Faster Core Sector Growth - Electricity and fertilizer surge!
- Buzz around Ease of Doing Business and Make in India.
- Special feature on India's offshore rupee denominated bonds issuance.

Faster Core Sector Growth: Electricity and fertilizer Surge!

Growth in India's eight core sectors spanning coal, crude oil, natural gas, refinery products, fertilizer, steel, cement and electricity hit a four-month high of 3.2% (y/y) in September. This is due to sharp pick-up in fertiliser production and electricity generation.

The growth rate in September was the highest since May (4.4%). Though cumulative growth rate in the Apr-Sept FY 2015, is now 2.3%, lower than 5.1% in the same period last year.

While electricity generation scaled an 11-month peak at 10.8% in September as compared to 3.9% a year ago, fertilizer production surged to its highest since February 2010. It increased by 18.1% in Sept. However three key sectors -crude oil, steel and cement - contracted, posing some concerns about economic momentum. Coal sector output expanded by only 1.9% in September this year as against 7.6% in the same month last year. However, it was higher than 0.4% in August. While natural gas and refinery production posted growth on a yearly basis, output growth was down on monthly basis.

BUZZ AROUND MAKE IN INDIA & EASE OF DOING BUSINESS

India moved up to rank 130 from 134 (revised upwards from 142 after methodology changes among 189 countries) according to the *Ease of Doing Business* (EoDB) Report issued by

MASALA BONDS – A NEW RECIPE

Foreign investors have historically been wary of entering India. Rupee-denominated or "masala" bonds are one way that the government is exploring to attract them. The money raised would be used to finance private sector investment. This would benefit Indian economy in three ways - by deepening India's capital markets by attracting greater foreign capital, offering another step towards full convertibility of rupee and potentially lowering the cost of capital. And finally, many of these projects would help reduce India's $750bn infrastructure deficit.

The International Financial Corporation (IFC), the World Bank's private-sector financing arm, has issued several rupee denominated bonds offshore. An issue with maturity up to 10 years was listed on London Stock Exchange in November 2014.These bonds are issued and payable in rupees but the redemption value is linked to the US$/INR exchange rate. IFC has seen its rupee-linked borrowing in international markets surge to $6.4bn during FY 2015, nearly comparable to its yen-linked borrowings $6.9bn and higher than its borrowings in renminbi at $6.1bn. Recently, the People's Bank of China also bought Indian Sovereign bonds worth $500m.

On the domestic front, the government rolled out a new policy paradigm in FY 15-16 by committing to more expenditure on infrastructure using quasi state bodies. The Indian Railway Finance Corporation (IRFC), the finance arm of the Indian Railways, has already issued long-term bonds worth £198m to Life Insurance Corporation of India (LIC), an Indian state-owned insurance group and investment company. The proceeds will be used for capacity augmentation. LIC will be providing financing worth £14.8 bn to railways over five years. The funds will be available at 30 basis points over a 10-year benchmark yield and will enjoy a five-year moratorium on interest and loan repayment. These terms are intended to reflect the railways' need for long term funds for investment.

We are also exploring an IRFC rupee denominated bond issuance in the UK during PM Modi's visit. This issuance would be among the first of this type of financing by India.

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the World Bank. The World Bank reported that two key reforms were responsible for the improved ranking - the elimination of requirements for paid-in minimum capital and for a certificate to commence business operations. Beyond these reforms, the Indian government has sought to address a number of other ease of doing business issues through a state by state approach, such as utilities connections, construction permits, minority investor protection and property registration. 10 years ago it took 127 days to start a new business, now it takes just 29. Next year, many expect India to move further up the rankings given planned reforms on contract enforcement and bankruptcy.

TRANSFER PRICING MECHANISMS TO BE EASED

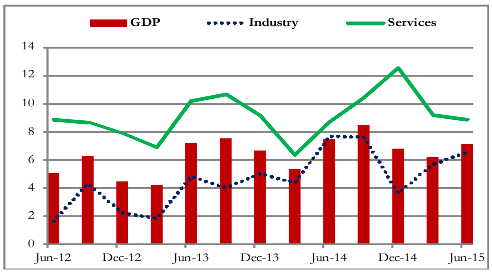
In the light of the backlog of tax cases, the Ministry of Finance is streamlining safe harbour rules and advance pricing agreements - mechanisms which can be used to agree the price of services rendered by a multinational to its subsidiary in India. India's safe harbour rules have drawn a tepid response since they were introduced due to the high margins they dictate (up to 25% on total operational profits). The government is looking at clarifying definitions and lowering margins to attract companies. Advance pricing agreements (APAs) have been more popular – but the system is under severe strain. With close to 550 cases pending, government is looking at expediting clearances by increasing manpower and implementing a sector specific approach.

LAUNCH OF 'IMPRINT INDIA'

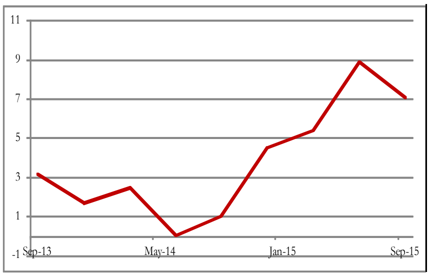
PM Modi recently launched 'Imprint India', to kick-start original research in areas where the country is dependent on foreign technology. 'Imprint India' is an Inter Ministerial Group that forms a single-window mechanism to screen research proposals for funding in response complaints that excessive red tape was delaying projects and discouraging institutes from starting them. The group has identified 10 areas where India is heavily dependent on foreign technology and where little or no research has been initiated. These include healthcare, computers & information technology, energy, sustainable habitat, nano technology hardware, water resources and river systems, advanced materials, manufacturing, defence and environment and climate change. The research areas will dovetail with the 'Make in India' campaign to boost indigenous manufacturing.

GROWTH: *Industrial Production picks up as Core Index shows FastGrowth*

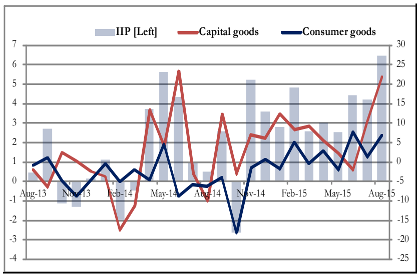
GDP



Projects Under Implementation

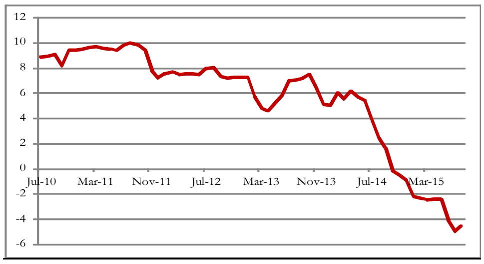


IIP/Capital/Consumer Goods

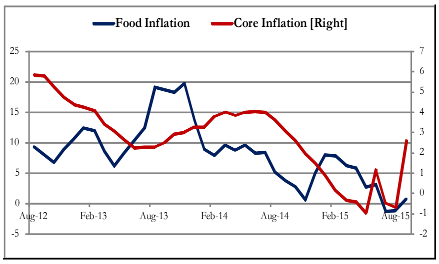


INFLATION: *Wholesale and retail inflation remain muted.*

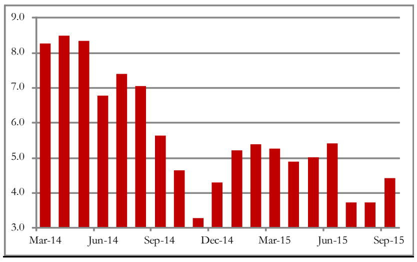
Wholesale Price Index (% y/y)



Food vs. Core Inflation (% y/y)

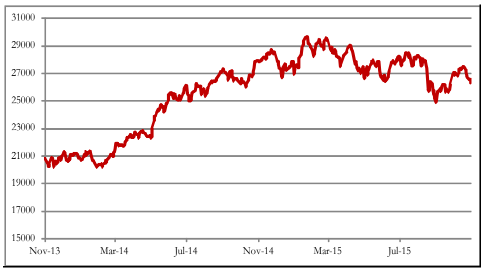


Consumer Price Index (% y/y)

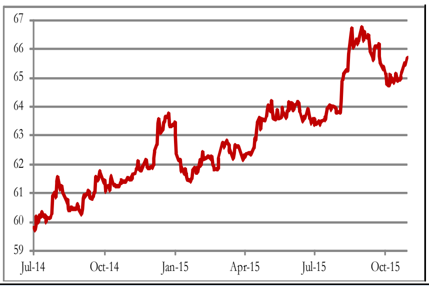


MARKETS: *Financial markets struggling as China's slump continues*

SENSEX



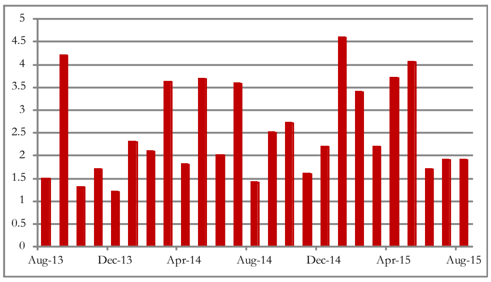
USD/INR



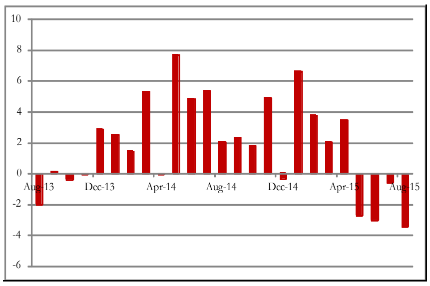
10yr Govt. Securities yield (%)

EXTERNAL: *FIIs trim exposure in July-September quarter.*

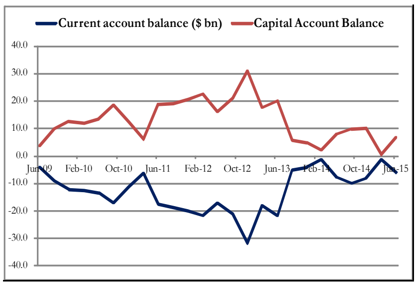
FDI ($ Bn)



FII ($ Bn)

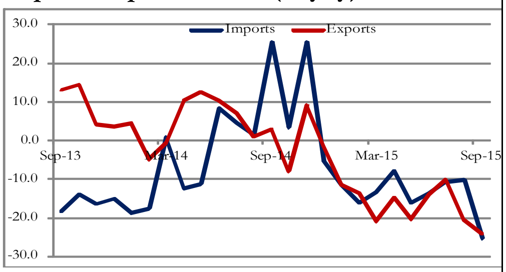


Current vs. Capital A/c ($ Bn)

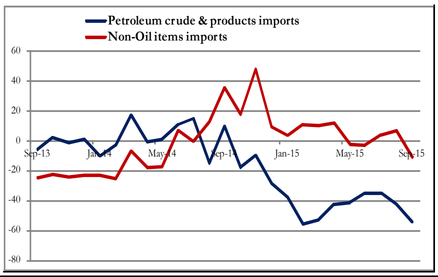


TRADE: *Low commodity prices and sluggish global economy continues to affect both, exports and imports.*

Export/Import Growth (% y/y)



Imports- Oil and Non Oil (% y/y)



Trade Balance ($ Bn)