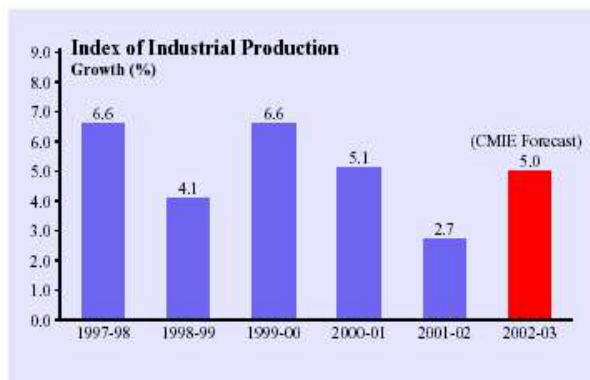


Outlook–Indian Industry

The new financial year started off on a depressing note. The proposal to implement the value added tax system in place of sales tax, resulted in chaos in industry during April. Far from implementing VAT on the scheduled date of 1 April, the resistance to VAT resulted in disruption of trading activity across the country. Fears of margins having to be sacrificed as also the refusal of states like Delhi to comply with VAT, generated much resistance to VAT amongst traders. The new deadline of 1 June for VAT implementation is also being viewed with skepticism, given the lack of consensus amongst states to adhere to a common set of guidelines.



The truckers strike that persisted for almost two weeks in April added to the chaos during the month. Demanding a resolution to several problems faced by them, the truckers went off the roads, stalling movement of raw materials and finished goods across the country. Companies, particularly those in the garments, cement, steel and automobile sectors, stated that their sales were adversely affected on account of the truckers strike. The strike was finally called off on 23 April.

Another dampener came in the form of an early monsoon forecast from the Indian Meteorological Dept. The MET has predicted that this year's monsoon would be below normal at 96 per cent of the long term average. While stating that a drought is unlikely, the MET has accorded a 21 per cent probability for a drought during the current year. We had expected the drought of 2002–03 to depress industrial growth during the year. This did not happen and industry is poised to record a remarkably high growth of over five per cent during 2002–03 (Growth was 5.7 per cent during April–February).

Industrial growth is likely to slow down to 4.5 per cent in 2003–04. In 2002–03, the automobile sector, foods, apparels and beverages & tobacco, contributed significantly to growth. We expect a delayed adverse effect on rural incomes and thereby demand in 2003–04.

In 2003–04, sugar production is expected to decline or record no growth as sugarcane production declined on account of the drought. The oilseeds output was also hit, resulting in an expectation of a decline in edible oils production. We expect the production index of food prod-

ucts to slow down significantly to around 1.6 per cent during 2003–04. The food products sector recorded a high 9.2 per cent growth during April–February 2002–03. The buoyancy was on account of edible oils production, which grew substantially following the bumper rabi crop of 2001–02. Sugar production was also higher than expected.

The automobile industry is also likely to record much lower growth in 2003–04. We expect the adverse effect of a slump in rural demand to impact two-wheeler sales. We have forecast a ten per cent decline in two-wheeler sales after the healthy growth of 17.3 per cent and 15 per cent in 2002–03 and 2001–02 respectively. The LCV segment is also likely to record a decline in sales after the unprecedented 27 per cent growth in 2002–03. Medium & Heavy commercial vehicles sales growth is expected to slow down after the robust 27.6 per cent growth in 2002–03. A slowdown in sales growth was already recorded in March 2003.

The steel and cement sectors are likely to post lower production growth in 2003–04. Even so, this would be favourable to these two sectors, given their good performance during 2002–03. The impact of infrastructure spending is expected to continue during most part of the current year. We have forecast finished steel production growth to be in the region of four per cent after the six per cent growth of April–February 2002–03. Cement production growth is expected to be around seven per cent after the 9.7 per cent growth of 2001–02 and the 8.8 per cent growth of 2002–03. The scheduled completion of the Golden Quadrilateral project by December 2003 is likely to ensure continued demand for cement and steel for most part of the current year.

However, the primary concern of companies in these two sectors is the direction of selling prices. Steel prices have been rising mainly due to unprecedented demand from China on account of the Olympics scheduled to be held there in 2008. Cement prices were weak during most of 2002–03. The prospects of a rise in cement prices depends on the monsoon.

The apparels sector is likely to fare well for the second consecutive year. Apparels exports data available until November reflect a robust 16.3 per cent growth during April–November 2002. We expect exports growth in the apparels sector to be extremely healthy at 18–20 per cent during 2003–04. With the lifting of export quotas expected in 2005, upon the dismantling of the Multi-Fibre Agreement, Indian garment exports have a very good opportunity to fare well. Although the volumes can be expected to soar from 2005–06 onwards, many global retail chains have already set up offices in the country and have commenced identifying Indian apparels suppliers to source their global requirements.