

Manufacturing: Is it Growing or Sluggish?

Guest Column

BL CHANDAK



IIP data on manufacturing sector for November 2014 shows a 3% growth over November 2013. This growth is due to low base effect as the manufacturing index in November 2013 and 2012 had declined by 2.8% and 0.8%, respectively over their corresponding month in the previous years. The manufacturing index was 177.8 in November 2011 which declined to 176.4 in November 2012 and further to 171.8 in November 2013. In the same month in 2014 the index at 177.0 is still lower than it was in November 2011.

The manufacturing index is based on physical output of various industries. From this it is clear that manufacturing production volume in November 2014 is even marginally lower than that in November 2011. The growth in manufacturing for April-November 2014 is mere 1.1%. The yearly average of manufacturing index increased marginally from 181.0 in FY12 to 181.9 in FY14 [growth of just 0.5% over two years].

Over the past six years ending March 2014, the manufacturing index increased by just 3.3% p.a. All these are way behind the 12-14% growth envisaged under the New Manufacturing Policy. Even over a longer period manufacturing CAGR, at 6.8%, was lower than the 7.1% GDP growth during FY01-14. Manufacturing is the growth engine in an emerging economy. Its growth should be higher than that of GDP. Despite very high growth optimism, manufacturing growth prospects continue to be uncertain and discouraging.

Experiences world over show that many times persistent under-performance of industry despite favourable fundamentals is caused by systemic impairment in the financial system which affects saving-investment-growth nexus. In our case, it is essentially triggered by trust-deficit-induced systemic weaknesses in the inter-firm sales on credit arrangement or trade credit (TC) system as there is no apparent disorderly development in bank credit architecture.

In terms of financial intermediation, credit volume/activities, reach, inclusiveness and credit redistribution, the role of TC network is truly stupendous.

The Intensity/pattern of intermediation of bank credit, private savings and suppliers' credit by firms through TC determine the volume of credit supply, level of demand for bank credit, credit multiplier, micro-liquidity and market liquidity. TC is too interconnected to financial networks and real sector to ignore. Systemic weaknesses in TC expose the financial system to contagion risk. Understanding and mapping these complex and dynamic interconnections in financial networks are essential to identify fault lines as these impact saving-investment-growth nexus and more so credit-intensive manufacturing sector.

Explaining the sluggishness in terms of policy issues is oversimplification. Prof Nassim Taleb states that today in a highly interconnected world, consequences from small disturbances in one place can lead - very rapidly - to large effects in another or even generalised cascades. It is quite logical to construe that systemic weaknesses in all important TC can set off deep, widespread and enduring economic slowdown when with a less than 5% share in total US mortgage market, the subprime mortgage crisis could trigger prolonged global economic crisis.

Research is needed on generalised cascades arising from systemic weaknesses in TC. We have to understand its magnitude and mechanism of propagation for a meaningful intervention. Ignoring these will continue to impact manufacturing growth. NPA environment may deteriorate further as TC continues to be the lender of the last resort in respect of working capital for vast majority of firms.

BL Chandak, Ex-DGM, Small Industries, Development Bank of India

US Fed may Stick to Mid-year Rate Hike Plan Despite Volatility

Officials think US will be ready for tightening by June-Sept and falling oil prices are a positive for economy

Jonathan Spicer & Ann Saphir

New York | San Francisco: Tumbling oil prices have strengthened, rather than weakened, the Federal Reserve's resolve to start raising interest rates around midyear even as volatile markets and a softening US inflation outlook made investors push back the timing of the "liftoff". Interviews with senior Fed officials and advisors suggest they remain confident the US economy will be ready for a modest policy tightening in the June-September period, while any subsequent rate hikes will probably be slow and depend on how markets behave.

While they are hard-pressed to explain why bond yields have fallen so low, their confidence in the recovery stems in part from in-house analysis that shows falling oil prices are clearly positive for the US economy. Internal models also suggest that a decline in longer-term inflation expectations probably does not signal a loss of faith in the Fed's 2% inflation goal.

Instead, the models attribute



US Federal Reserve Janet Yellen

much of the recent decline in market-based measures of inflation expectations to increased investor confidence that prices will not spiral out of control, officials say. Policymakers' public comments reflect that, as they sound unperturbed by what has been a steep drop in recent months. "I am watching the inflation expectation numbers but not drawing a conclusion that they call for any action or that they change in any serious way my outlook," Atlanta Fed President Dennis Lockhart told reporters earlier this week. Some of those interviewed

Consumer Prices Fall 0.4% in Dec

Washington: US consumer prices recorded their biggest decline in six years in December and a gauge of underlying inflation held steady, which could bolster the case for delaying the first interest rate increase from the US Federal Reserve. The Labor Department said on Friday its Con-

sumer Price Index fell 0.4% last month, the largest drop since December 2008, after sliding 0.3% in November. In the 12 months through December, CPI increased 0.8%. It was the weakest YoY reading since October 2009, and followed a 1.3% rise in November. - Reuters

Fed to Establish a Community Advisory Council

Washington: The US Federal Reserve said on Friday that it will establish a community advisory council of 15 citizens to meet regularly with central bank officials for a broad conversation on the state of the economy.

The move comes as the Fed is pressured by labour and low-income groups arguing for continued low interest rates. Fed Chair Janet Yellen and other Fed officials have met with these groups from late last year to hear their concerns, a departure from the practice of previous central bank leaders. The Fed said the panel will have "a particular focus on the concerns of low- and moderate-income populations." - Reuters

'No Commercial Sale from Auctioned Coal Blocks'

Our Bureau

Kolkata: None of the 204 coal blocks that are to be auctioned in two tranches, this year and the next, will be given away for commercial mining for sale in open market, coal secretary Anil Swarup said in Kolkata on Friday.

"In the first tranche, under which 101 blocks will be auctioned, the government intends to place under the hammer blocks meant for projects which are ready for production - be it in power, steel or any other segment," said Swa-

rup, making it clear that the blocks will not be given for commercial market sale.

The second tranche of 103 blocks is likely to be taken up after March 2016, the secretary said. "In this tranche, the government may auction blocks to projects that may have units under construction. A final decision on eligibility for participating in auctions for the second tranche will be decided later," he added.

The government is targeting total production of 500 million tonnes for these 204 blocks by 2020. By then, monopoly miner Coal India is expected to double its production to 1 billion tonnes and meet

the nation's projected demand of 1.5 billion tonnes of coal per year.

The tranche of 101 coal blocks will be auctioned in three sets. In the first set, 42 blocks with peak production potential of 90 million tonnes every year will be sold. The second set of 32 blocks is expected to have capacity of 140 million tonnes, while the third set of 27 blocks could produce 140 million tonnes per annum - totalling around 350 million tonnes. The second tranche of 103 blocks is expected to produce 150 million tonnes a year.

In Touch with Environment Ministry Swarup said that the coal ministry will

be monitoring project status and will be in constant touch with the environment ministry so that clearances are received in time. The government has also decided that clearances received by former block operators will be transferred to the new operators after auctions. "They need not apply afresh for clearances already received," he said.

A project monitoring group has been formed that will keep tabs on project progress for both the private sector and Coal India. This group will also facilitate block operators so that projects come up in time.



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UNAUDITED FINANCIAL RESULTS FOR THE QUARTER AND NINE MONTHS ENDED 31ST DECEMBER, 2014

PARTICULARS	(₹ in lacs)					
	FOR THE QUARTER ENDED 31.12.2014	FOR THE QUARTER ENDED 30.09.2014	FOR THE QUARTER ENDED 31.12.2013	FOR THE NINE MONTHS ENDED 31.12.2014	FOR THE NINE MONTHS ENDED 31.12.2013	FOR THE YEAR ENDED 31.03.2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
1. Interest earned (a)+(b)+(c)+(d)	8,889.74	8,602.36	7,789.13	25,781.52	22,675.93	30,641.16
(a) Interest/discount on advances/bills	6,501.92	6,255.94	5,557.25	18,843.17	16,140.65	21,950.43
(b) Income on Investments	2,279.79	2,204.82	2,110.41	6,586.91	6,268.22	8,343.13
(c) Interest on balances with Reserve Bank of India and other inter-bank funds	53.90	54.45	48.77	164.18	117.86	166.79
(d) Others	54.13	87.15	72.70	187.26	149.20	180.81
2. Other Income (Refer note 2)	2,039.07	1,947.61	1,644.42	5,677.73	5,191.82	7,405.22
3. TOTAL INCOME (1+2)	10,928.81	10,549.97	9,433.55	31,459.25	27,867.75	38,046.38
4. Interest Expended	5,300.18	5,077.51	4,805.12	15,356.62	13,890.04	18,689.52
5. Operating expenses (i)+(ii)	2,314.03	2,310.16	2,013.40	6,730.07	5,769.33	7,900.77
(i) Employees cost	778.48	785.98	655.10	2,316.21	1,942.10	2,601.35
(ii) Other operating expenses	1,535.55	1,524.18	1,358.30	4,413.86	3,827.23	5,299.42
6. TOTAL EXPENDITURE (4+5)	7,614.21	7,387.67	6,818.52	22,086.69	19,659.37	26,590.29
7. OPERATING PROFIT (3-6)	3,314.60	3,162.30	2,615.03	9,372.56	8,208.38	11,456.09
(Profit before Provisions and Contingencies)						
8. Provisions (other than tax) and Contingencies (Net)	507.15	725.04	202.49	1,618.79	1,602.23	2,107.46
9. Exceptional Items	-	-	-	-	-	-
10. Profit/(Loss) from Ordinary Activities before Tax (7-8-9)	2,807.45	2,437.26	2,412.54	7,753.77	6,606.15	9,348.63
11. Tax expense	907.69	826.55	808.43	2,576.54	2,230.80	3,130.96
12. Net Profit/(Loss) from Ordinary Activities after Tax (10-11)	1,899.76	1,610.71	1,604.11	5,177.23	4,375.35	6,217.67
13. Extraordinary Items (net of tax expense)	-	-	-	-	-	-
14. Net Profit/(Loss) for the period (12-13)	1,899.76	1,610.71	1,604.11	5,177.23	4,375.35	6,217.67
15. Paid-up equity share capital (Face value ₹2/- per share)	472.65	471.93	469.25	472.65	469.25	469.84
16. Reserves excluding revaluation reserves						37,750.65
17. Analytical Ratios						
(i) Percentage of Shares held by Government of India	NIL	NIL	NIL	NIL	NIL	NIL
(ii) Capital Adequacy Ratio (Basel III)	14.06%	14.84%	15.50%	14.06%	15.50%	16.07%
(iii) Earnings per Share (EPS) for the period/year (before and after extraordinary items) (₹)						
- Basic	8.05	6.83	6.84	21.96	18.66	26.51
- Diluted	7.98	6.78	6.83	21.77	18.63	26.45
(iv) NPA Ratios						
(a) Amount of Gross Non-Performing Assets	3,901.59	3,613.10	3,008.20	3,901.59	3,008.20	3,146.41
(b) Amount of Net Non-Performing Assets	1,250.67	1,179.80	1,003.43	1,250.67	1,003.43	1,024.62
(c) % of Gross NPAs	1.34	1.34	1.25	1.34	1.25	1.22
(d) % of Net NPAs	0.44	0.44	0.42	0.44	0.42	0.40
(v) Return on Assets (annualized)	1.86	1.69	1.79	1.78	1.70	1.78
18. Public Shareholding*						
- Number of shares	1,608,234,425	1,590,743,163	1,459,829,275	1,608,234,425	1,459,829,275	1,578,741,905
- Percentage of shareholding	68.05%	67.41%	62.22%	68.05%	62.22%	67.20%
19. Promoters and promoter group shareholding*						
- Pledged/Encumbered						
- Number of shares	NIL	NIL	NIL	NIL	NIL	NIL
- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	-	-	-	-	-	-
- Percentage of shares (as a % of the total share capital)	-	-	-	-	-	-
- Non Encumbered						
- Number of shares	667,388,073	681,356,225	794,813,175	667,388,073	794,813,175	693,911,965
- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
- Percentage of shares (as a % of the total share capital)	28.24%	28.88%	33.88%	28.24%	33.88%	29.54%

* excludes shares held by custodian against which Global Depository Receipts have been issued.

Notes:

- Statement of Assets and Liabilities of the Bank as on 31st December, 2014 is given below.
 - 'Other income' includes gains from securities transactions, commission earned from guarantees/letters of credit, fees earned from providing services to customers, selling of third party products, ATM sharing fees.
 - During the quarter ended 31st December, 2014, the Bank allotted 3,612,880 equity shares pursuant to the exercise of options under its Employee Stock Option Scheme.
 - The shareholders of the Bank at the 20th Annual General Meeting held on 27th June 2014, approved the sub-division (split) of one equity share of the Bank from nominal value of ₹10/- each into five equity shares of nominal value of ₹2/- each. The record date for the sub-division was 30th July, 2014. All shares and per share information in the financial results reflect the effect of sub-division (split) retrospectively for the earlier reporting periods.
 - Disclosure about investor complaints:
- | Complaints at the beginning of the quarter | Received during the quarter | Disposed off during the quarter | Unresolved as on 31.12.2014 |
|--|-----------------------------|---------------------------------|-----------------------------|
| NIL | 121 | 121 | NIL |
- In accordance with RBI circular DBOD.No.BP.BC.2/11.06.201/2014-15 dated 1st July, 2014, banks are required to make Pillar 3 disclosures under Basel III capital requirements. The Bank has made these disclosures which are available on its website at the following link: <http://www.axisbank.com/investor-corner/baselIII-disclosures.aspx>. The disclosures have not been subjected to audit or limited review by the statutory auditors of the Bank.
 - The above results have been approved by the Board of Directors of the Bank at its meeting held at Mumbai today.
 - These results for the quarter and nine months ended 31st December, 2014 have been subjected to a "Limited Review" by the statutory auditors of the Bank.
 - Previous period figures have been regrouped and reclassified, where necessary, to make them comparable with current period figures.

Place: Mumbai
Date: 16th January, 2015

www.axisbank.com

PARTICULARS	(₹ in lacs)	
	As on 31.12.2014 (Unaudited)	As on 31.12.2013 (Unaudited)
CAPITAL AND LIABILITIES		
Capital	472.65	469.25
Reserves and Surplus	43,343.51	37,179.46
Deposits	2,91,198.65	2,62,397.61
Borrowings	72,987.51	48,398.88
Other Liabilities and Provisions	13,107.28	11,004.65
TOTAL	4,21,109.60	3,59,449.85
ASSETS		
Cash and Balances with Reserve Bank of India	15,504.40	16,348.35
Balances with Banks and Money at Call and Short Notice	10,398.93	7,398.14
Investments	1,22,373.80	1,12,204.85
Advances	2,60,567.33	2,11,467.34
Fixed Assets	2,472.08	2,354.37
Other Assets	9,793.06	9,676.80
TOTAL	4,21,109.60	3,59,449.85

Segmental Results

	(₹ in lacs)					
	FOR THE QUARTER ENDED 31.12.2014	FOR THE QUARTER ENDED 30.09.2014	FOR THE QUARTER ENDED 31.12.2013	FOR THE NINE MONTHS ENDED 31.12.2014	FOR THE NINE MONTHS ENDED 31.12.2013	FOR THE YEAR ENDED 31.03.2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
1 Segment Revenue						
A Treasury	12,864.12	12,393.87	11,737.12	37,374.85	34,435.13	46,399.98
B Corporate/Wholesale Banking	5,196.56	5,072.06	4,749.04	15,196.35	14,316.07	19,424.44
C Retail Banking	7,230.94	6,972.97	5,782.18	20,790.49	16,065.91	22,259.00
D Other Banking Business	216.33	193.47	153.49	540.01	415.61	666.89
Total	25,507.95	24,632.37	22,421.83	73,901.70	65,232.72	88,750.31
Less: Inter segment revenue	14,579.14	14,082.40	12,988.28	42,442.45	37,364.97	50,703.93
Income from Operations	10,928.81	10,549.97	9,433.55	31,459.25	27,867.75	38,046.38
2 Segment Results After Provisions & Before Tax						
A Treasury	805.01	708.93	696.14	2,159.23	1,601.09	2,335.74
B Corporate/Wholesale Banking	1,450.89	1,336.16	1,527.22	4,278.82	4,323.98	5,892.60
C Retail Banking	347.16	226.26	62.51	843.99	338.47	551.27
D Other Banking Business	204.39	165.91	126.67	471.73	342.61	569.02
Total Profit Before Tax	2,807.45	2,437.26	2,412.54	7,753.77	6,606.15	9,348.63
3 Capital Employed						
A Treasury	12,051.86	24,870.55	20,264.48	12,051.86	20,264.48	19,510.61
B Corporate/Wholesale Banking	87,443.93	72,895.19	63,405.81	87,443.93	63,405.81	62,406.09
C Retail Banking	(58,265.98)	(58,203.64)	(47,988.46)	(58,265.98)	(47,988.46)	(44,687.33)
D Other Banking Business	431.60	349.51	242.90	431.60	242.90	357.68
E Unallocated	2,154.75	1,852.36	1,723.98	2,154.75	1,723.98	633.44
Total	43,816.16	41,763.97	37,648.71	43,816.16	37,648.71	38,220.49

Note: Previous period figures have been regrouped and reclassified, where necessary, to make them comparable with current period figures.

For and on behalf of the Board

SHIKHA SHARMA
MD & CEO