

THE WEEKLY BUZZ

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HOME LOAN EMIs EXPECTED TO GO UP BY Rs. 6000 CR. ANNUALLY

Home loan borrowers, already reeling under the persistently high inflation, should brace up to shoulder additional financial burden. Rating agency Crisil has said rising interest rates and the reintroduction of teaser loans by various banks would put an additional burden of Rs 6,000 cr. on them. According to Crisil, borrowers would be hit by an extra amount annually, in the form of higher equated monthly installments (EMIs).

Borrowing costs have risen for both categories of borrowers—those who pay higher EMIs, as well as those who have opted for longer re-payment tenures. “Customers paying higher EMIs face an estimated additional annual burden of around Rs 3,500 crore,” Crisil said in its report.

The report also says borrowing costs rose 15% for borrowers who opted for floating rates. “Floating interest rates for home loan borrowers increased by around 250 basis points (bps) since April 2010, due to a continuous increase in key policy rates,” the report said.

While 40% customers chose to pay more per month, 60% preferred an increase in the tenure or part payment. The ones who chose teaser loans would be in for a shock from April next year, since interest rates would be adjusted with the ones prevailing in the market. The yield differential between teaser rates and the reset rate is likely to be 300-350 bps.

“About 25% of the housing loan portfolio of Rs. 5,10,000 cr., as of March, comprises teaser loans. Once interest rates are reset to prevailing market rates (from April 2012), we estimate an additional EMI burden of Rs. 2,000-2,500 cr. annually on this account,” Crisil said. Currently, those who have taken loans under the teaser schemes would not be affected, since they are fixed for the initial two-three years.

Another area of concern is asset quality. Increasing rates may raise the profitability of the financiers, but the additional financial burden may lead to bad debts. Banks and housing finance companies are likely to see a rise in NPAs due to the steep rise in the interest outgo for borrowers coupled with the economic slowdown.

Mr Prasad Koparkar, Head – Industry and Customised Research, Crisil Research, said, “The NPA levels are expected to go up by around 30 bps to reach 1.9% by March 2013. However, losses on this account are expected to increase only marginally.”

INDUSTRIAL GROWTH SLOWS TO 4.1% IN AUGUST

For a second successive month, industrial output has registered tepid growth, indicative of a slowdown setting in. The official index of industrial production (IIP) rose 4.1% in August on a year-on-year basis.

Although this is marginally higher than the 3.8% growth for the previous month, the fact that it comes on a lower base of 4.5% (against an increase of almost 10% for July 2010) is worrying. Among the major IIP segments, the index for manufacturing rose 4.5% in the latest recorded period, while amounting to minus 3.4% for mining and 9.5% for electricity. During August 2010, the year-on-year growth rates stood at 4.7% for manufacturing, 5.9% for mining and 1% for electricity.

What is of most concern, though, is the growth rates recorded within manufacturing and more so for capital goods. This sub-segment — a proxy for investment activity taking place in the economy — has posted an annual increase of just 3.9% in August, following a minus 13.8% in the preceding month and 4.7% for August 2010.

The cumulative industrial growth during the first five months of this fiscal worked out to 5.6% (compared with 8.7% for April-August 2010-11), with manufacturing at 6% (9.2%) mining at 0.2% (7.7%) and electricity generation at 9.5% (4.1%).

India's economy grew by 7.7% in the April-June period, the slowest in six quarters. India Inc. has attributed the slowdown to rising interest rates, which have led to an increase in the cost of borrowings, thus hindering fresh investments.

NEW INVESTMENTS DIP TO ITS LOWEST MARK IN NINE QUARTERS

Policy paralysis, global uncertainties and high interest rates have combined to stall capacity addition in the country. The September 2011 quarter saw new investments worth only Rs.2.6 lakh cr., a nine-quarter low, reveal data from the Centre for Monitoring Indian Economy (CMIE). This is about 64% below the peak of Rs.7.2 lakh cr. achieved in the June 2010 quarter.

Moreover, the total value of projects being implemented, which had been steadily rising over the last five quarters, has slipped to just under Rs.67.99 lakh cr. at the end of September from Rs.68.26 lakh cr. at the end of June. Although the fall is not too significant, the year-on-year increase was just about 9% in the September quarter, whereas the average for the past three years is way higher.

It would appear that neither the government nor the private sector appears to be spending too much. While the government has moved ahead on some legislation including the Land Acquisition Bill and speeded up environmental clearances, the industry appears reluctant to add fresh capacity just yet, partly because of the slowdown in the economy and partly because interest rates remain elevated and are expected to start falling six months down the line.

“After nearly seven years of an increase in new investment proposals, the inventory of proposals under implementations has increased very significantly. As a result, the focus now shifts to completion of these projects and less on further announcements,” said CMIE Managing Director Mahesh Vyas.

The slowdown in new projects has been reflecting in the weak output of the capital goods segment. August saw output of capital goods grow by just 3.9% and July saw a sharp contraction in the output of capital goods growth to a negative 13.8%.

Engineering firms are expected to post lacklustre numbers for the September quarter. “New orders are estimated to have come off by about 20% y-o-y during the September quarter and we expect managements to cut new order guidance,” says an analyst. Data collated by IDFC reveal that during July-September, engineering companies won orders worth Rs 34,260 cr. with Larsen & Toubro and BHEL bagging some fairly large orders.

US SENATE BLOCKS OBAMA'S \$447 BILLION JOB CREATION PLAN

President Barack Obama's effort to enact a \$447 billion jobs plan was derailed by the U.S. Senate, falling short of the 60 votes needed to advance what he has proposed to revive a faltering economy. Two Democrats joined the Republican minority to block the plan in a test vote. The tally was 50-49, shelving the measure in its current form. The vote leaves Obama's economic agenda in limbo because the political parties disagree about what should be done to lower the nation's 9.1% unemployment rate. Republicans seek permanent tax cuts and deregulation, while Obama and congressional Democrats want more federal spending and short-term tax reductions.

Obama proposes to create jobs by cutting payroll taxes for workers and employers by half, extending jobless benefits, providing aid to states for schools and emergency workers and boosting spending on public works projects such as roads and bridges. He also would provide tax breaks for employers to hire the unemployed.

Did You Know?

If you have rented out a property to an individual or a company, it can come handy during an emergency. You can get a loan against the rent you are yet to receive in the future from your tenant. Such a loan would be cheaper than a personal loan and your tenant will pay the equated monthly instalments on your behalf. While most banks provide loans against rent receivables only if property is rented out to reputed firms and banks, some banks such as Indian Overseas Bank and UCO Bank provide a loan even if the premise is rented out to individuals.

Weekly Spotlight

	October 7	October 14	% chg	
			Weekly	YTD
Sensex	16,232.54	17,082.69	↑	5.24 ↓ (16.71)
Nifty	4,888.05	5,132.30	↑	5.00 ↓ (16.34)
US	11,103.12	11,644.49	↑	4.88 ↑ 0.58
China	2,359.22	2,431.37	↑	3.06 ↓ (13.42)
Japan	8,605.62	8,747.96	↑	1.65 ↓ (14.48)
Hong Kong	17,707.01	18,501.79	↑	4.49 ↓ (19.68)
Germany	5,675.70	5,967.20	↑	5.14 ↓ (13.70)
UK	5,303.40	5,466.40	↑	3.07 ↓ (7.35)
Brazil	51,243.62	55,030.00	↑	7.39 ↓ (20.60)
NYMEX Crude (\$ per barrel)	83.00	86.80	↑	4.58 ↓ (5.03)
Gold (\$ per oz)	1,652.00	1,678.00	↑	1.57 ↑ 19.39
Weekly DII Inflow (Rs.cr)	1,192.95	(530.74)		
Weekly FII Inflow (\$ mn)	(615.04)	462.27		
Cumulative DII Inflow - YTD (Rs.cr)	25,173.64	24,642.90		
Cumulative FII Inflow - YTD (\$ mn)	(563.73)	(101.46)		
Food Inflation (%)	9.41	9.32		

I would rather be certain of a good result than hopeful of a great one.

- Warren Buffett

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