ECOWRAP

भारतीय स्टेट बैंक
STATE BANK OF INDIA

'Be the Bank of Choice for a Transforming India'

OCTOBER 31, 2018
ISSUE NO:59, FY19

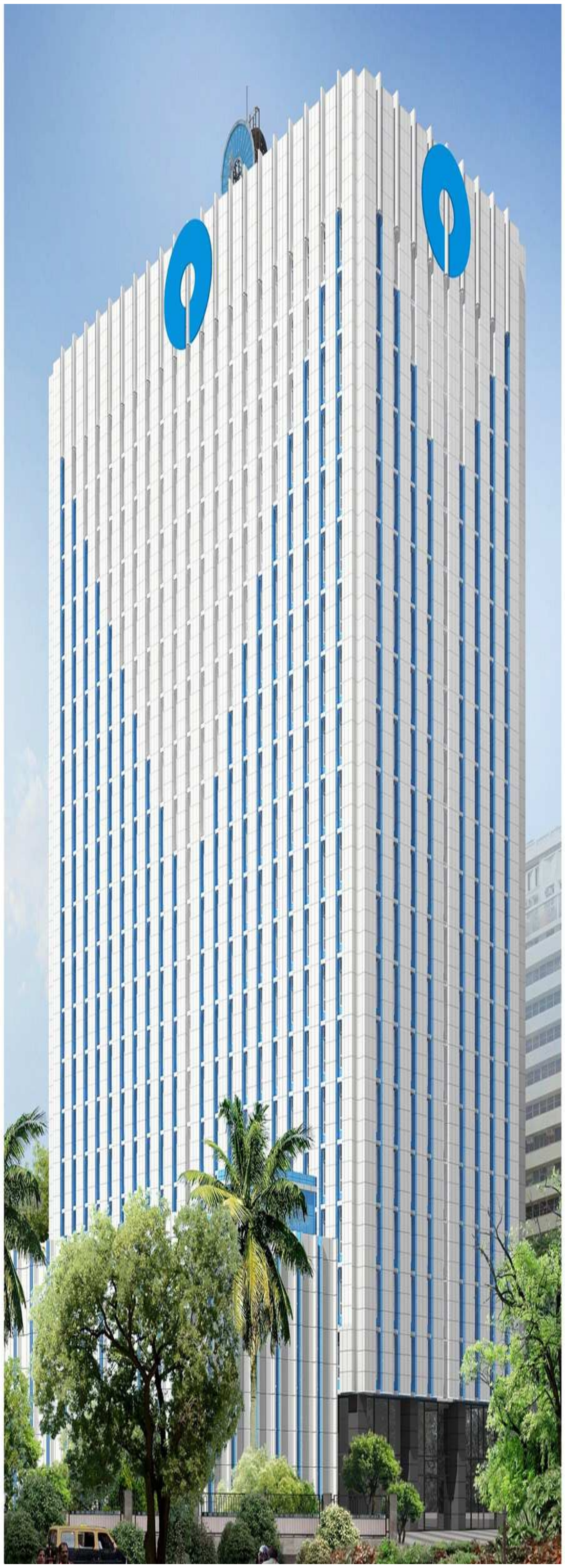
SBI COMPOSITE INDEX DECLINES

The yearly SBI Composite Index for Oct'18 has declined to 52.10 (Moderate Growth) from 52.60 (Moderate Growth) in Sep'18. While, the M-o-M index declined further to 49.7 (Low Decline) in Oct'18, from 49.9 (Low Decline) in Sep'18.

The SBI Composite Index, a leading indicator for manufacturing activities in the Indian Economy aims to foresee the periods of contraction and expansion. The Composite Index has mainly two indices i.e. SBI Monthly Composite Index and SBI Yearly Composite Index.

With the robust growth in the SBI Composite Index, we believe IIP Manufacturing growth may grow at 5% in Sep'18 but may decline to 4.0% or less n Oct'18.

Overall, we believe that growth is likely to slow down in second half of current fiscal.



SBI COMPOSITE INDEX INDICATE A CONTRACTION TREND

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- The SBI Composite Index, a leading indicator for manufacturing activities in the Indian Economy aims to foresee the periods of contraction and expansion. The Composite Index has mainly two indices i.e. SBI Monthly Composite Index and SBI Yearly Composite Index.
- With the robust growth in the SBI Composite Index, we believe IIP Manufacturing growth may grow at 5.3% in Sep'18 but may declined to 4.0% in Oct'18.

How to Read SBI Composite Index	
SBI Composite Index	**Index Value**
Less than 42	Large Decline
42 to 46	Moderate Decline
46 to 50	Low Decline
50 to 52	Low Growth
52 to 55	Moderate Growth
55 & Above	High Growth
Source: SBI Research	

Chart 1: SBI Yearly and Monthly Composite Index Trend

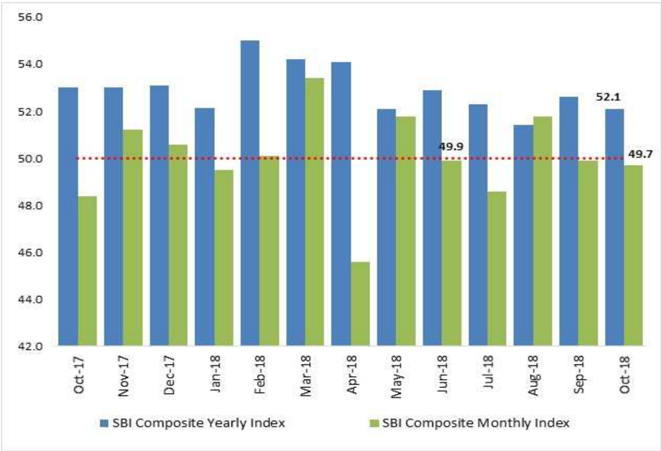
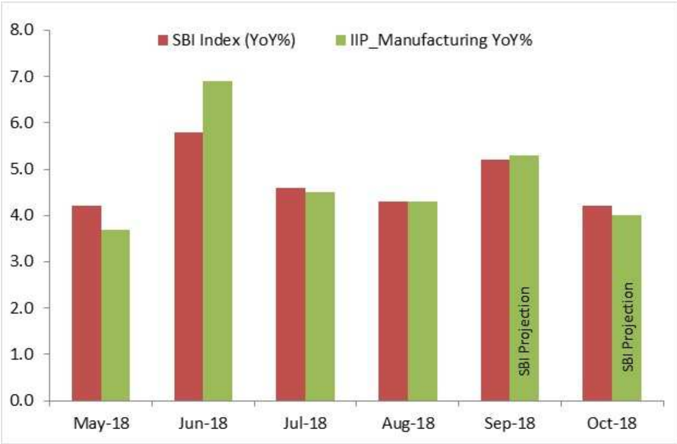


Chart 2: SBI Yearly Index (YoY %) & IIP Manufacturing (YoY %)



Source: SBI Research

PAPER INDUSTRY – DEMAND AND OUTLOOK

- The World consumes around 400 to 420 million ton of paper and board annually with over 70% in paperboard segment and around 25% in writing and printing (W&P). Moderate economic growth in China and proliferation of digitisation is likely to keep the global demand tepid in the next 5 years at 1~1.15% CAGR. While paper board is expected to grow, W&P and news-print paper are likely to witness contraction by 0.5% and 5% CAGR respectively during the 2018~2023 period.

Trend in Paper and Board demand (in mn tons)			
Year	Global	Domestic	Share (%)
2016	403	17	4.22
2017	407	18	4.42
2018 (P)	415	19	4.58
2023 (P)	435	23	5.29
Source: SBI Research;			

- India consumes around 17 to 18 mn ton with around 50% in paper board and 30% in W&P. Regional newspaper keeps the demand stable for newsprint paper. Paper & board including Newsprint demand is expected to grow at a healthy pace of 5.5-6.5% and expected to touch ~22 million tonnes by 2023. End-use segments such as household appliance, FMCG products, ready-made garments, pharmaceuticals and e-commerce etc. Further, specialty paper (majorly tissue paper and thermal paper), though having a very small share, is expected to continue growing at a robust 9-10% CAGR.
- Key players such as ITC Ltd, TNPL, West Coast Paper Mill, Orient Paper Mill, Seshasayee Paper & Board are expanding capacities of around 9 lakh mn ton (which is around 38% of the total industry capacity addition) in next 5 years with an investment of around Rs.90 bn.

- Healthy credit ratio of rated paper entities stands at 1.75 (with 28 upgrades and 16 downgrades) during the period April 2018 to 20th October 2018.
- ***Outlook:*** Large Indian entities generally import wood pulp and waste paper as raw material. Non-integrated operations make Indian paper entities susceptible to international prices and inability to absorb elevated cost due to currency depreciation or price fluctuations. Going forward, entities that have low fixed cost and well integrated operations are likely to ride out adversity and post reasonable profits. Continuing demand and ability to pass on cost are likely to keep the capacities busy. Further, China has banned import of waste paper and this is likely to benefit Indian entities through lower prices (partially offset by rupee depreciation). Overall, we feel Indian paper entities are likely to weather this adversity and improve financial matrix in the next three years or so. This, perhaps explains the conviction of large players in drawing up capex plans as discussed above.

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ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of "tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis".

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management , corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

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