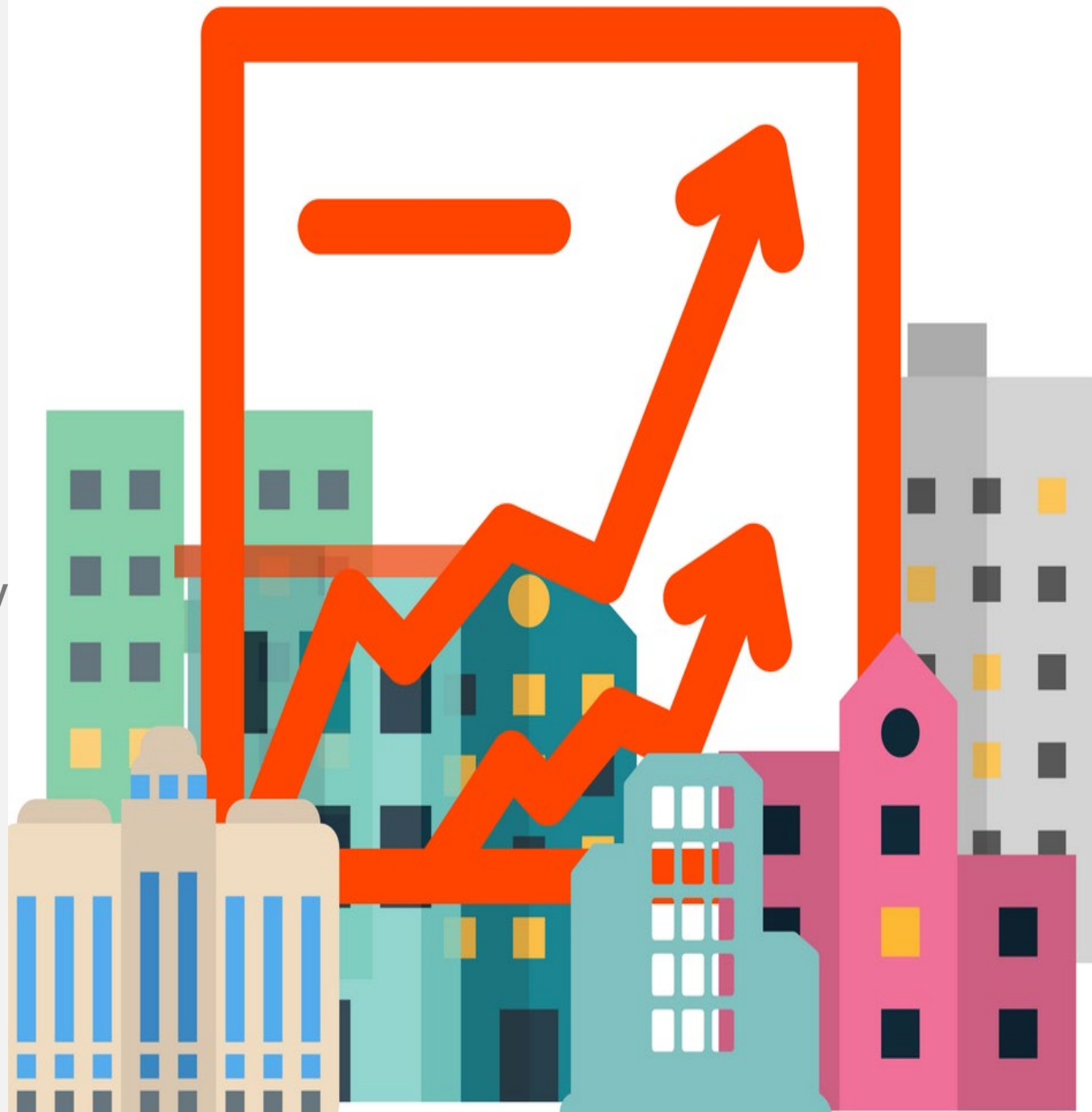


## Expect Many Reforms in India because of NOC

Presentation at IMC Chamber of Commerce and Industry

25 November 2019



## Feels like 2008? It was different

The poor state of the global economy is not the prime cause for the current situation of Indian economy; nor are solutions used for recovery in 2008 suitable

- 1. Indian corporates are over leveraged,**
- 2. the banking system (including, shadow banking) is stressed and**
- 3. the Government has very little headroom for fiscal measures unless it lets go of the Fiscal Deficit glide path**

**Look back to the situation before the 1991 reforms, when a totally bold change in policy happened...**



## Expect reforms reminiscent of 1991 because of NOC

I have been telling people to expect certain big policy announcements between Diwali and the next Budget- bolder than the announcements that followed the bungling of Budget 2019 by the Finance Ministry...**some have already come**

They could be reminiscent of the continual flow of reforms in 1991, coming in the months that followed the first bold announcement.

**Why? Because there was NOC then and there is NOC now.**



# **I will try to answer 4 Questions**

1. Where are we now?
2. What brought us here?
3. Why is there No Other Choice?
4. Where do we go from here?



# The Indian economy is in a very bad situation

1. Where are we now?
2. What brought us here?
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## Risk of meltdown of critical institutions, which will then cascade into a more difficult situation

The **5% Q1 GDP** growth feels more like 3.5%

Most of the economic indicators have worsened in Q2, making it one of the worst quarters in 15 years.

**+ Retail loans grew @ 16%, Bank loans to industry grew @ 2.7% albeit slower than before, and passenger traffic by air grew 1.5%**

**Almost all important indicators actually fell e.g.**

- ✓ commercial vehicles (35%)
- ✓ steel (3.1%),
- ✓ freight earnings of the Railways (3.7%),
- ✓ passenger traffic by rail (2.1%),
- ✓ value of projects completed (39%),
- ✓ value of investment in new projects announced (51.8%) and
- ✓ net exports (3.7%).



**The Government's own expenditure grew at a measly 1.5% which is far lower than budgeted for the year. Even if the economy picks up a bit in Q4, the GDP growth rate for the whole FY 2019-20 could only be between 4.7 to 5.3%.**



# The Indian economy is in a very bad situation

1. Where are we now?
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Slowdown has hit

- **rural India more than urban India,**
- **the lower middle class and the poor,**
- **all regions of India (less so the four Southern States)**
- **the unorganised sector (which employs 93% of India's labour) leading to disarray.**

Slowdown in many large sectors, has resulted in retrenchment or cutting the number of working days in many factories or both. For ex.

The Automobile and downstream businesses are reported to have shed 300,000 workers. It has also led to wage cuts due to cut in working days. Job losses have also been reported in upstream industries which supply to the automobile sector and downstream businesses.

Infrastructure sector has come to a grinding halt, the Real estate sector is over supplied where weaker players have had their wings clipped by the RERA Act and job losses have been heavy.

**As a result, people don't have enough spending power something that is confirmed by the recent RBI survey which reports that people feel that they have less money to spend than they had 5 years ago.**



# I remain optimistic about the economy

1. Where are we now?
2. What brought us here?
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“...because the Government is now seized of the situation”

“Soon the Government will acknowledge that there is  
**NOC** but to reform...”

“And not the set of corrections announced soon after the disastrous Budget,  
but real reforms which will **boost** lending as well as purchasing power”



# There are many reasons why we are in this hole... 1.

## Supreme Court's overreach

1. Where are we now?
2. **What brought us here?**
3. Why is there No Other Choice?
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- In the 2G case, the SC declared the allotment of spectrum "unconstitutional and arbitrary" and cancelled the 122 licenses issued in 2008 under Raja. This affected many of those who invested in the Indian telecom story without doing anything illegal.
- The coal block allocation verdict destroyed livelihoods in rural India to start with and later across all parts of the thermal power supply-chain.
- The Iron ore licence verdict and judgement in 2018 which cancelled the renewal of licences by the Goa government - damaged the Goa economy and many livelihoods.

**Unfortunately, the Supreme Court threw the baby with the bath water.  
They interpreted the law. But clearly they had not brought two aspects to bear in their judgements, viz. fairness and impact on the larger economy**



# The RBI too contributed significantly to the economic debacle.

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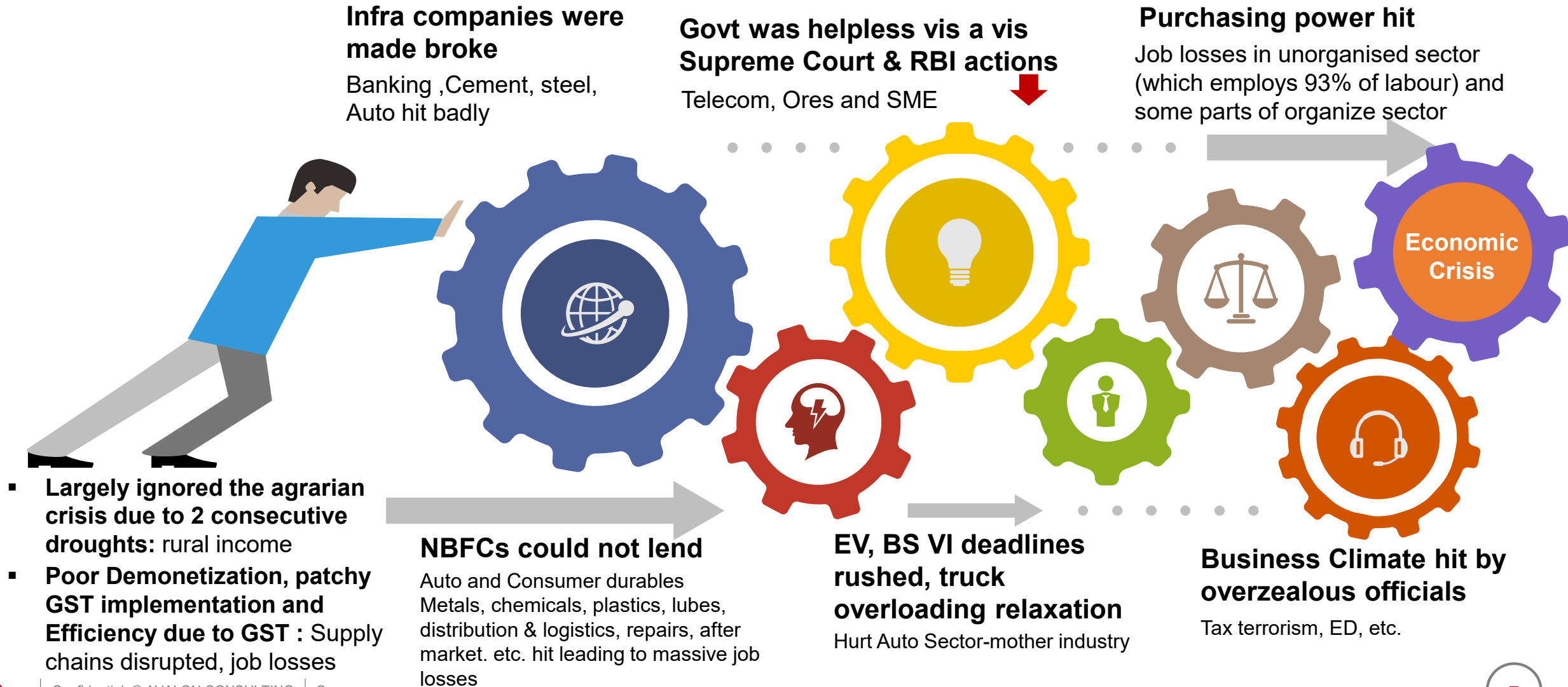
- **The state of Non Food (NF) Bank credit is an advanced indicator of growth, stagnation or decline as the case may be**
  - Interest rates were sharply raised in 2012 and money supply tightened in order to control inflation. Together, they started a slowdown in NF credit offtake.
  - From a high of 20.7% in 2010, NF Credit growth dropped to 13.5% in 2012 and 8.6% in 2014
  - It grew @ 9.1% for a year in NDA's first year and declined thereafter to 4.4% in 2018
- Even in 2018, the RBI Governor was adamantly looking at inflation control at below 4% as RBI's only role. It did not matter to the Governor that economic growth was hindered. Interest rates remained high.
- The IL&FS debacle killed the ability of the Banking system to lend to NBFCs leading to severe curtailing
- Some decisionmakers in the RBI, believed that there was adequate money supply and that the Government was crowding out other borrowers. Also that the RBI should not do more than what it was doing by way of Open Market Borrowings, etc. SME businesses were left high and dry. Thus, the economy suffered.

**The RBI and the Government were at loggerheads on most issues at a time when the economic situation called for co-operative independence**



# The Government contributed to the economic crisis though there were some other fantastic reforms like IBC

1. Where are we now?
2. **What brought us here?**
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4. Where do we go from here?



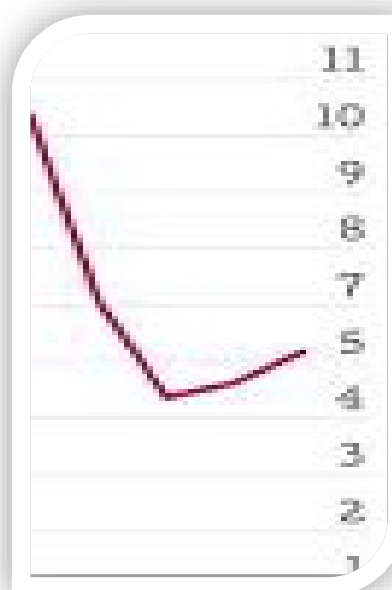
# Why is there **No Other Choice** but to Reform?

1. Where are we now?
2. What brought us here?
3. **Why is there No Other Choice?**
4. Where do we go from here?



If the Government continues to not acknowledge the severity of the problem

If the Government takes the bull by the horn



- ▶ India is at the cusp of serious digital disruption.
- ▶ The threat from global digitally empowered players is real.
- ▶ Hence strengthening of businesses in the Public and Private Sector is essential.
- ▶ The Government has its role to play and it knows it.

Modi is a great communicator. He is best placed to explain to the nation, various problems that the country faces, and thus pave the way for major reforms. Importantly, some firms in each sector would have to die for the others to survive.

**This is the best time to incentivise digital transformation so that the best may survive and take India into a higher orbit.**



# You can use models to forecast when it is BAU.. ..but it is not BAU now...

1. Where are we now?
2. What brought us here?
3. **Why is there No Other Choice?**
4. Where do we go from here?



**WHY IS IT  
NOT  
BAU?**



**No Government will sleep when there is a crisis especially when decision making has become centralised**

**Try to understand the mind of the KDM (key decision maker) just as in a corporate situation**

**Strategic thinking requires an understanding of the mind of the opposing General or the CEO of the KDM in a business situation**



# Why did Modi meet Xi Jinping in Mahabalipuram and not Ahmedabad or Delhi?

*If you want to fight a war, you need to understand how the opposing General thinks- Sun Tzu*

1. Where are we now?
2. What brought us here?
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## Chemical Engineer who poses as a litterateur

- In Russia, he peppers his speeches with Dostoevsky and Gogol; when in France, Molière and Maupassant.

## Loves China's history

- Xi has a hankering for historical sites like these, especially those associated with famous scenes from the stories of Chinese antiquity. He cultivates a reputation for taking history seriously

## Confidence

- Self-assured, self-possessed, and utterly unflappable- Xi is equally at home on the hearths of struggling farmers and in the greeting halls of foreign capitals.

## Multi-faceted

- A leader who can grasp both the plow and the bond market!

**Don't confront him, just win his heart alluding to historical Chinese links**



# What will Modi do next? Read his mind

*If you want to fight a war, you need to understand how the opposing General thinks- Sun Tzu*

1. Where are we now?
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## Wants to be like Lee Kuan Yew

- Great desire to be appreciated,
- Does not take kindly to criticism
- Not corrupt

## Wants to control

- More downward, one-way communication, to his immediate subordinates and citizens at large
- Control mindset, centralized thinking and decision making
- Shrewd, silent operator

Modi is Douglas McGregor's Theory X man, who truly believes that it is a leader's role to coerce and control followers because people have an inherent aversion for work and will abstain from it whenever possible. Theory X leader wants to win, and not lose.

## Confidence

- Far more authoritarian than weak
- Feels very self-confident and wants to be seen as a decisive leader in contrast with his predecessor
- Unilaterally sets goals, policy and procedures
- Dominates interaction in most settings
- Individually directs the completion of tasks

## Man of Action

- Wants action all the time, even at the expense of adequate planning and analysis
- Individually directs the completion of tasks
- Control mindset, centralized thinking and decision making
- Appreciates obedience, dislikes dissent

So, what will Modi do to sort the economy when he wants to leave a legacy but has NOC to reform India quickly?

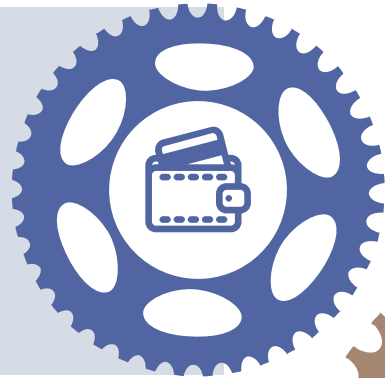
# The Focus of the Reforms and changes will be (short and medium term) on 4 aspects

1. Where are we now?
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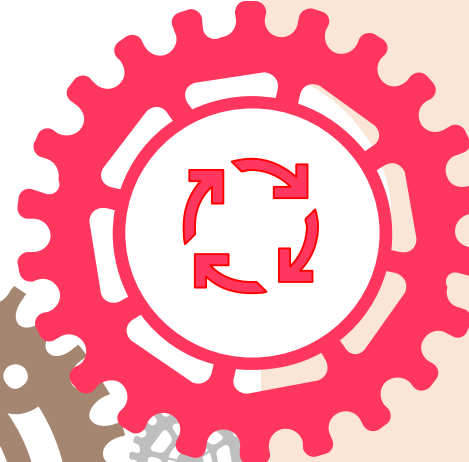
## Boost Consumption in the Short Term

- Tax cuts to put money in the pockets of consumers
- Restart Job creation Cycle
- Revive SMEs which have sunk or are sinking



## Save the 4 Mother Sectors: Auto, Infra (incl. Telecoms & RE), Textiles, Financial

Short term strategies for each Mother Sector: e.g. Funnel funds into good NBFCs who can finance purchase of PVs and CVs  
Boost FDI & Domestic Private Investment in the Medium Term



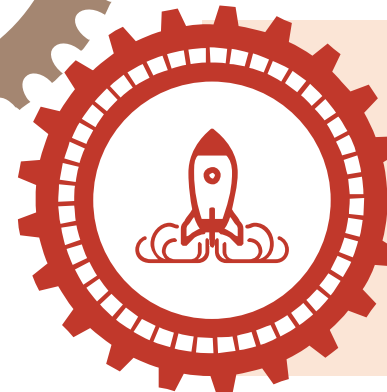
## Boost Exports in the Medium Term

Step up exports in general, but with special focus on to the UAE & US



## Boost Govt Capital Expenditure in the Short & Medium Term

Step up funding of various initiatives to incentivise Capex by domestic and foreign companies, export promotion, etc.



**Economic Revival**



# Boost Consumption in the Short Term

1. Where are we now?
2. What brought us here?
3. Why is there No Other Choice?
4. **Where do we go from here?**



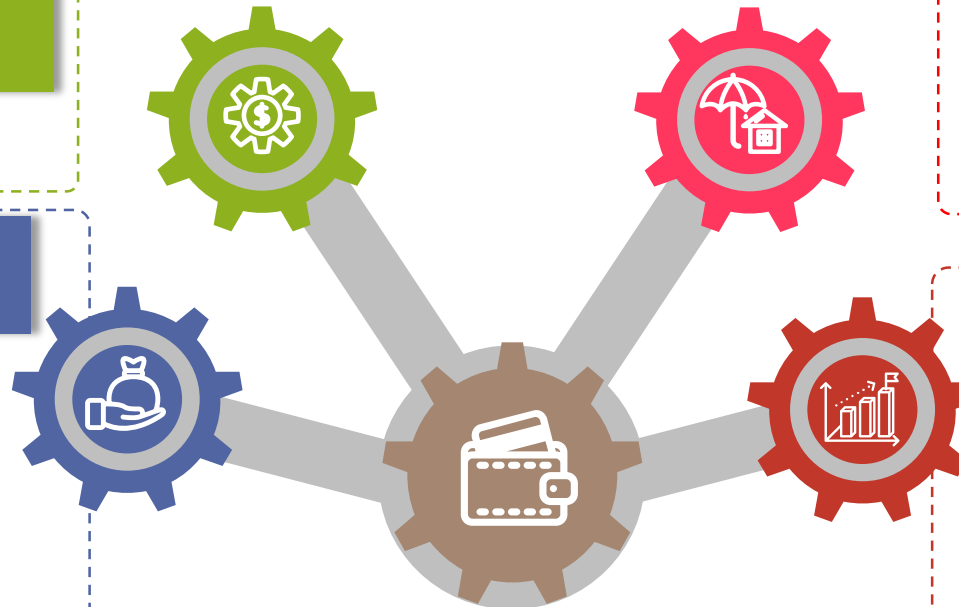
Putting cash in the hands of consumers to spend on automobiles, durables, housing will boost demand for manufactured products (metals, chemicals, paints, cement, etc.) and services (including construction and repairs, etc.) which will kick off a virtuous cycle of more jobs and more money to spend

## Additional NHB funding to provide refinance to good Mortgage lenders

- To increase lending to boost real estate demand

## Putting money in the hands of consumers

- Availability of consumer finance from Banks/NBFCs
- Interest rate subvention/ subsidy
- Reduction in GST on cars & 2 wheelers



## Financing for Real Estate Developers

- To help complete projects
- To encourage affordable housing construction
- REITs

## Boost production by SMEs to support new B2B2C and B2B demand

- Push Banks to fund SMEs and good NBFCs to fund SMEs to support vendors serving auto, consumer durables, FMCG, etc.
- Lending rate reduction

**Quick Demand Revival**

**Modi can sense that this cannot wait**



# Save the 4 Mother Sectors: Auto, Infra (incl. Telecoms & RE), Textiles & Financial

1. Where are we now?
2. What brought us here?
3. Why is there No Other Choice?
4. Where do we go from here?



Save the mother sectors top-down instead of doing a hundred things bottom-up. Then the economy will take care of itself

## Auto

- Push Banks to fund SMEs and good NBFCs to fund consumers and trucking firms
- Govt to increase its own purchase on bulk basis and even allow Govt employees to buy vehicles under the scheme
- Subvention and back-ended financing schemes to be encouraged for 1 year

## Infra (incl. Telecoms & RE)

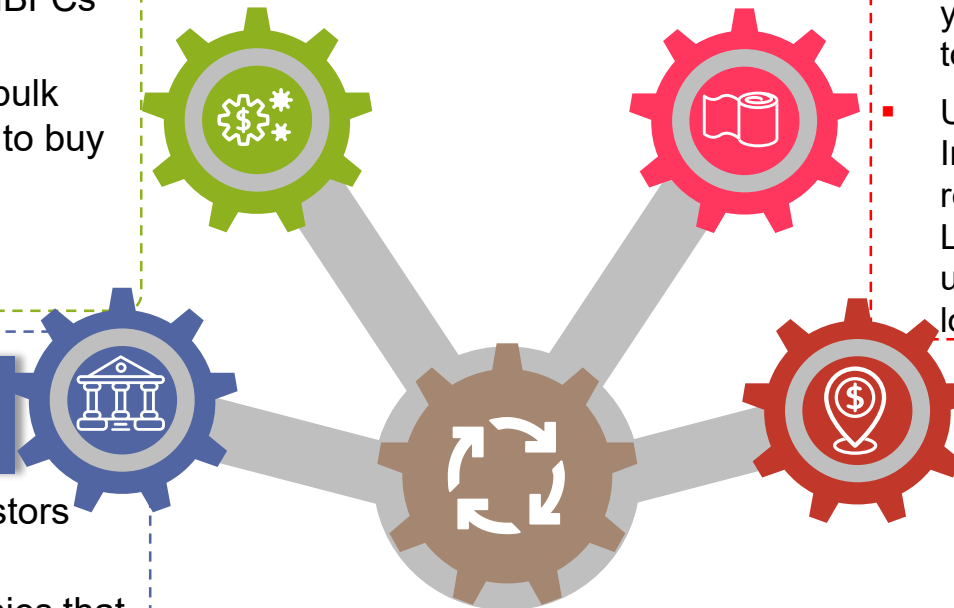
- Boost confidence in this sector of investors and bankers by correcting self-goals
- Revive deserving projects and companies that are stuck due to land acquisition problems, environment clearances, etc.

## Textiles

- Serious crisis in the cotton and cotton blended yarn sector which employs millions of people due to steep drop in exports and high costs
- Unimaginative policies hurting apparel industry. Incentive package on duty drawback needs revision. Exports incentives need to be restored. Labour policy flexibility needed. Sector uncompetitive Bangladesh and China pushing lower cost products into India

## Financial Sector

- Identify stressed NBFCs and don't let institutions die
- Reform PSU banks not just merge –make them nimble and competitive
- Lending rate reduction by reducing savings bank rate



**Quick Demand Revival**

Modi can sense that this cannot wait

# Boost Exports in the Medium Term- the \$ 1 trillion goal!

1. Where are we now?
2. What brought us here?
3. Why is there No Other Choice?
4. Where do we go from here?



Focus on countries like USA, UAE, S Korea who have a reason to want to buy from India or to set up export bases in India

## Export competitiveness

- RBI may allow the Rupee to weaken
- Encourage FDI into sectors where India is competitive and where technology can boost it further
- Sops for IT sector
- Invest to build brand 'India'. Focus USA, ME, select European countries

## Provide quick relief to Exporters

- Solution for Rs 23,000 Cr stuck
- Co-ord with IBC matters
- Increase financial support for SMEs to do market dev activities in target markets – direct Govt schemes and thru EximBank

## Marketing support

- “Brand India’ Air cover for specific products
- Export market development schemes to be made bigger and more sophisticated

## Packages for MNCs to make India an export production base-better late than never

- Packages to be negotiated at single window (multi-ministry) with decision making powers

**Job creation, saving Bank NPA, Sustainable DD for many sectors**

# Boost Govt Capital Expenditure in the Short & Medium Term

1. Where are we now?
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Some moves are visible already, but practical difficulties still exist. Modi may use trusted advisors to iron out the challenges in the 'Bureaucratic Code'

## Revive major Infra Projects which are stuck

- Speedy intervention:
  - Land & environment clearances
  - IBC resolution
- Last Mile financing

## Get FDI & Govt spending into Infra

- Guidelines and incentives to large international developers
- USA, UAE
- To encourage affordable housing construction
- Modi's equivalent of Golden Quadrilateral
- Relaxation of Deficit Financing target
- Disinvestment on war footing and actions to revive the Stock market

## Provide quick relief to Infra Companies from PSU Debts

- New Solution to release Rs75000 stuck in infructuous cases with PSUs like NHAI
- Co-ord with IBC matters, etc.

## Relax FDI norms for manufacturing, Infra & Retail

- One-on-One Labour Laws:
  - Flexibility for Org sector
  - More protection in unorganized Sector
- Land acquisition: Multiple ways
- Relax norms on case2case or sector2sector basis
- Push Banks to fund SMEs and good NBFCs to fund SMEs

**Job creation, saving Bank NPA, Sustainable DD for many sectors**

Even if **50%** of what I expect a logical,  
a strong leader would do, happens...

**...India** will be in a better place by Q2 of FY 20-21

# Glossary

<b>BAU</b> – Business As Usual	<b>SME</b> – Small and Medium Enterprise
<b>GDP</b> – Gross Domestic Product	<b>ED-</b> Enforcement Directorate
<b>Q1, Q2</b> – Quarter 1, Quarter 2	<b>PV-</b> Passenger Vehicles
<b>RERA</b> - Real Estate (Regulation and Development) Act	<b>CV</b> – Commercial Vehicles
<b>RBI</b> – Reserve Bank of India	<b>FDI</b> – Foreign Direct Investment
<b>SC-</b> Supreme Court	<b>NHB</b> – National Housing Bank
<b>NF Bank Credit</b> - Non-Food Bank Credit	<b>FMCG</b> – Fast Moving Consumer Goods
<b>NDA</b> – National Democratic Alliance	<b>RE</b> – Real Estate
<b>NBFC</b> – Non-Banking Financial Corporation	<b>PSU</b> – Public Sector Units
<b>RBI</b> – Reserve Bank of India	<b>ME</b> – Middle East
<b>GST</b> – Goods and Services Tax	<b>MNC</b> – Multi-national Corporation
<b>IBC</b> - Insolvency and Bankruptcy Code	<b>Tr</b> – Trillion
<b>EV-</b> Electric Vehicle	<b>REIT</b> – Real Estate Investment Trust
<b>BS</b> – Bharat Stage	<b>NPA</b> – Non-Performing Asset
<b>Exim Bank</b> – Export Import Bank of India	

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