

## 14 BUSINESS REVIEW

## India Inc: who's growing, who's slowing

Quarterly numbers suggest many sectors staged a comeback from demonetisation, facing only a minor hurdle in GST

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Have demonetisation and the rocky transition to GST brought Indian businesses to a grinding halt? Ever since the CSO released its quick GDP estimates for the April-June 2017 quarter, pegging growth at 5.7%, there has been a heated debate on this. The debate has generated little light given that GDP estimates provide only broad-brush data on the economy.

For a micro picture on growth trends, we decided to turn to the quarterly results filed by listed companies, breaking them down into individual sectors. Over 1015 companies have filed their results for the last six quarters beginning April-June 2016 and ending July-September 2017. Studying their sales growth patterns threw up these findings.

**Consumption revives**

The note ban did deliver a body blow to consumer confidence, data from listed firms show. Almost every consumer-facing sector saw a sharp dip in sales for the October-December 2016 quarter – the months when the note ban was in force. But most sectors charted a quick recovery from that blow. Some have even seen growth rates return to levels better than a year earlier.

Aggregate sales growth for Fast Moving Consumer Goods (FMCG) companies slumped from 6.5% in July-September 2016 to 2.9% in the demonetisation quarter. Automobile sales shifted into first gear from 13.2% growth in July-September 2016 to 4.2% in the October-December quarter. Sales for retailers fell off a precipice from a 31% growth to a measly 1%. Consumer durable sales, already sluggish before demonetisation, grew at just 3.5% in the note ban quarter.

But all these sectors staged an unexpectedly quick bounce-back from the note ban. FMCGs saw growth pick up to 9.6% in the January-March 2017 quarter itself. Consumer durables saw sales growth zooming to 13% in the quarter immediately following demonetisation, further accelerating to 20% and 16% in the subsequent quarters. Even paints, a discretionary purchase item,

saw a doubling of growth in January-March 2017 from the note ban trough. The GST roll-out didn't pose as much of a challenge for the listed firms. Consumer goods such as FMCG, apparel and automobiles saw a blip in April-June 2017, but were back on the fast track by July-September 2017. In fact, listed firms in FMCGs, paints, durables, apparel and automobiles have all demonstrated their strongest growth in the last two years in the latest July-September quarter.

**Services lag goods**

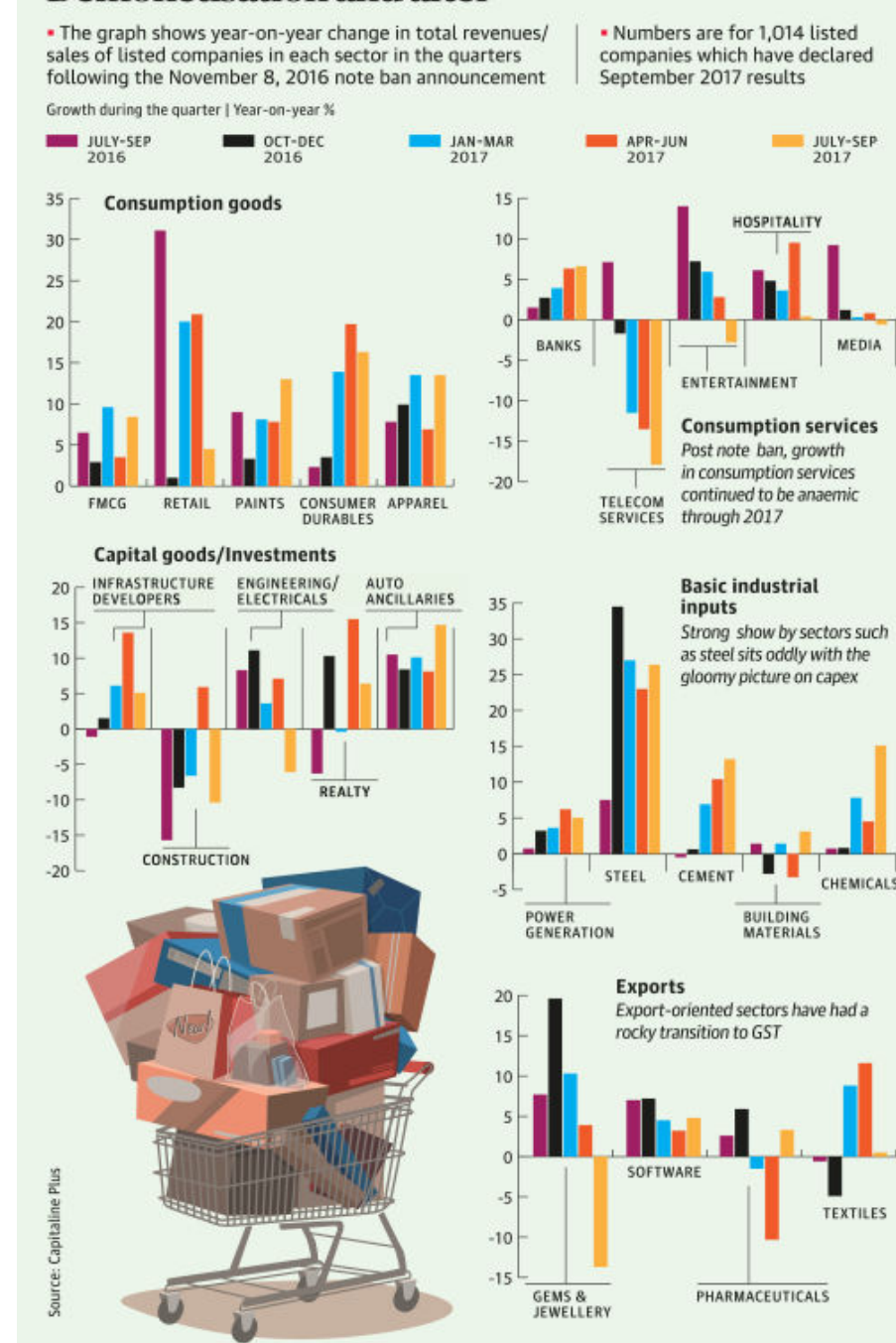
Consumer services, however, had a somewhat different story to tell. Revenue growth for telecom, entertainment, hospitality, and media took a sharp knock in the quarter in which demonetisation occurred.

Telecom services went from 7.1% growth in July-September 2016 to a 1.7% contraction in October-December 2016. Entertainment (multiplexes, cable TV providers) saw a halving of growth from 14% to 7% and media firms' (newspapers, broadcasters, television channels) slowed sharply from 9.2% to 1.2%.

Growth in these sectors has continued to be anaemic through 2017, with the GST transition probably playing a role in subdued sales. Banks alone have seen a marginal uptick in revenue growth post demonetisation, understandable given their deposit windfall.

Why have consumer goods taken less of a hit from GST than consumer services? One explanation could lie in the GST tax structure. GST has reduced the indirect tax burden on most consumer goods, fitting them into lower rate slabs than before. But it has raised effective taxes on services. Consumer goods firms have therefore been able to use the savings from GST to woo consumers back with discounts and lower selling prices. But service providers, who are already victims of intense competition (think mobile phones and hotel tariffs) in their sectors, haven't had this luxury. The higher tax incidence in their case has probably dented demand.

In reading the above numbers, it is important to re-

**Demonetisation and after**

member that growth rates cited here are a blend of volume and price growth. Commentary from most consumer goods firms suggest an improvement in volume growth in the latest quarter. In the case of services such as telecom or hotels, competition has lowered tariffs.

**Capital goods – divided**

If the consumer goods firms are signalling a clear revival in 2017 and a limited impact from the GST roll-out, how's the investment leg of the economy faring? Not as well, show the numbers. Revenue

numbers for turnkey infrastructure developers, construction firms and real estate developers were already shrinking in the quarter prior to the note ban (July-September 2016).

After the note ban, they staged a patchy recovery over the next two quarters to hit a growth patch by April-June 2017. But the latest July-September 2017 quarter has seen them back in the doldrums.

These firms seem to have received some order flows from the front-ended Government splurge on roads,

railways, rural electrification and the Bharatnet this fiscal. But the flows have dried up lately as the Centre has tightened its purse strings. Private sector capital expenditure continues to remain at a low ebb.

However, not all capital goods makers struggled with poor order flows. While capital goods suppliers to industrial firms were buffeted by the investment slump, those that cater to consumer firms managed business-as-usual.

Auto components, cables and telecom equipment have seen a steady improvement

in growth rates through the three quarters of 2017, ending the July-September quarter with growth of 14%, 33% and 14% respectively. These firms seem to have benefitted from the trickle-down effect of demand revival in their user industries.

The gloomy picture on capital expenditure sits oddly with the strong show from sectors such as steel, cement, mining, metals and refineries – suppliers of basic feedstock to industry. But this trend owes a great deal to the rising global prices of industrial commodities which has propped up realisations, amid middling volume growth.

Export-oriented sectors, after sailing through the note ban months, have had a rocky transition to GST. Jewellery, software and pharmaceuticals displayed dwindling growth in the first three quarters of 2017. Textiles and shipping shrank last year and managed a mild revival this year.

GST apart, sector-specific issues have also played villain to some export-oriented sectors.

For software services, the backlash against offshoring and changing business models have posed a challenge. For pharmaceutical exporters, pricing pressure on generics in the U.S. market and regulatory crackdowns have hit growth.

Overall, numbers from India Inc. suggest that, while the economy isn't back to firing on all cylinders, the accelerating sectors outnumber the slowing ones.

Extrapolating sector-wise numbers to the economy as a whole should come with caveats. In India, only the largest and most established firms tend to list themselves in the public markets. Therefore, these numbers essentially capture the trends for the best and brightest of Indian businesses.

Given that the 'formal sector' is widely believed to have made marketshare gains at the expense of unorganised players and unincorporated entities due to the note ban and GST, it is likely that the latter fared much worse. But having said this, the 1,015 firms analysed here account for about 35% of GDP by value.

## COMMENT

## A hot tip about Facebook

Prescient data shared using Whatsapp



**Porous woes:** India has been identified in one study as the 'leakiest' country for deals involving M&A. • AP

UNA GALANI

Facebook's biggest messaging market is infected with some curiously real news instead of the fake variety. Indian traders have been using the company's WhatsApp chat platform, which boasts more than 200 million local users, to share prescient information about publicly traded companies, a Reuters investigation found. The situation could lead to more regulatory headaches for boss Mark Zuckerberg.

Private group chats reviewed by Reuters found prescient information was spread about 12 stocks, including HDFC Bank and IT outsourcer Wipro. They contained financial details ahead of official announcements.

One message warned in July that Dr. Reddy's Laboratories would post a loss of more than ₹50 crore (\$7.7 million) compared to consensus forecasts of ₹300 crore. Three days later, the WhatsApp user turned out to be more accurate than the analysts.

**Tough rules in place**

The situation easily could attract the attention of regulators. The Securities and Exchange Board of India has tough rules against sharing inside information and is now pushing brokers to keep recordings of client orders. Authorities in Hong Kong and the United Kingdom already have sanctioned bankers for taking orders or

sharing confidential information on such apps. India's watchdog is comparatively low on resources, however. It has just one employee for every six listed companies, compared to one each at the U.S. Securities and Exchange Commission.

**Burden on Facebook**

In some ways, that could put a greater burden on Facebook even though WhatsApp's terms and conditions require users to act legally. India already has been identified in one study as the leakiest country when it comes to deals involving mergers and acquisitions.

It also will add to politicians' concerns about bogus news and the abuse of hard-to-track, encrypted WhatsApp messages as millions of Indians go online for the first time using their phones.

The \$520 billion social network, which is struggling to contain the fallout from a Russian propaganda campaign during the last U.S. election, has run into trouble elsewhere with WhatsApp. Brazil temporarily shut down the service last year when it failed to cooperate in a criminal investigation.

As Facebook aims to enter China, President Xi Jinping will be watching, too. India's chatty stock traders may be providing a hot tip about Facebook.

(The author is a Reuters Breakingviews columnist. The opinions expressed are her own)

## Infosys: questions unanswered

All is well, says Murthy, though the recast board has not given in to his demands

K.T. JAGANNATHAN  
CHENNAI

How does one judge the "all is well" comment made by founder N.R. Narayana Murthy on Infosys, after the return of Nandan Nilekani to the helm?

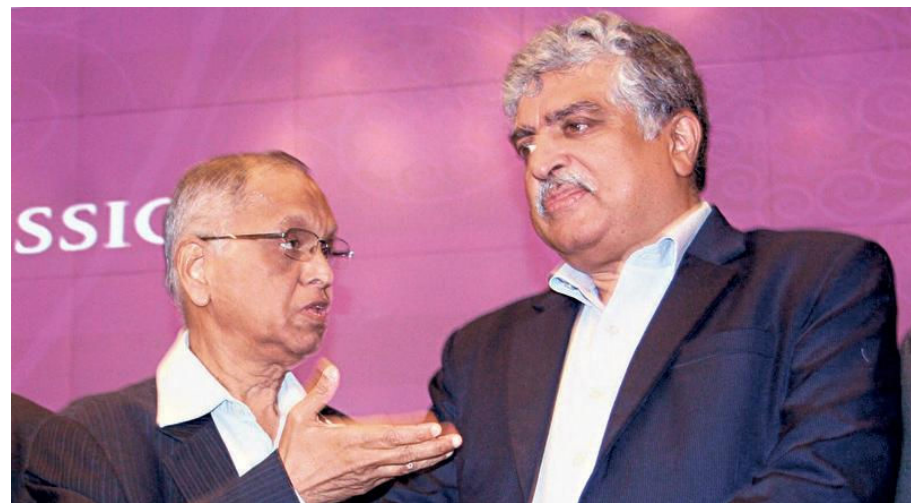
Quizzed by reporters in Bengaluru last week if he was satisfied with the leadership of Mr. Nilekani, he said, "absolutely, all is well." Not just that, Mr. Murthy went on to suggest that Mr. Nilekani had one too many complex issues on hand and that he should be left alone to handle them.

In the evolving business ecosystem where things happen at a fast pace and disruptions are dime a dozen, an organisation of the standing of Infosys requires to continuously foster a healthy partnership with all stakeholders, and more so with an iconic founder such as Mr. Murthy.

Even as it is trying to put the internal turmoil firmly behind it, Infosys has come under flak for its management of the GST (goods and services tax) information technology backbone. Read in this context, Mr. Murthy has said the right thing. This should ease up the atmosphere at Infosys.

**Unanswered questions**

But there are still many unanswered questions. Can the present conveniently gloss over the ugly happenings of the past? Stakeholders are yet to be given the true picture of the events that led to the departure of R. Seshasayee as chairman and Vishal Sikka as CEO in the wake of a no-holds-barred public campaign unleashed against them by Mr. Murthy. Besides the huge severance



**Let live:** N.R. Narayana Murthy has also conceded that Nandan Nilekani had several complex issues on hand and that he should be left alone to handle them. • PTI

package paid to former CFO Rajiv Bansal, the alleged wrong-doings in the acquisition of Israeli automation technology firm Panaya led to a widening chasm between Mr. Murthy and the erstwhile management.

**NEWS ANALYSIS**

Last month, the Nilekani-led board announced that there was no evidence of wrongdoings in the Panaya deal and asserted that the management won't make public the investigative report on the purchase. This led Mr. Murthy to express his disappointment.

"... Would you have posted the full report if you were running Infosys? You wouldn't, as you didn't in instances that needed detailed investigation," wrote Omkar Goswami, a former director of Infosys, in August this year in an open letter to Mr. Murthy, who had called on the Seshasayee-led board to make public the report.

Mr. Murthy now feels "all

is well" at Infosys though the current board, too, has not made the report public.

**Why the fuss?**

Corporate democracy advocates majority rule. The question is: how was a single shareholder – however iconic he/she may be – allowed to sidestep the majority view? If indeed there were no wrong-doings in the purchase deal as was announced by the current board, why was this big hullabaloo raised by Mr. Murthy? Why did he go public, and aggressively at that?

The Infosys stock had taken a heavy hammering in the marketplace during the time Mr. Murthy indulged in a public spat with the erstwhile management. In the din that followed, the voice of the concerned stakeholders was hardly audible.

Nothing changed in the board position – be it of the present one or that led by Mr. Seshasayee – vis-a-vis the Panaya deal till date. A sense of calm may have re-

turned to Infosys. But in its wake, the whole episode has made a mockery of corporate governance. Was there a real erosion in corporate governance at the IT firm?

Or, was the governance issue used as a tool to settle power equations within the board? Why didn't the regulatory watchdogs step in to rein in the raging spat that spilled over to the public domain. From hindsight, it could be argued that the whole fracas did no good to either the company or the founders. Names and reputations have also been hit in the process. And, it is no advertisement for the Indian IT industry in the world economic order.

Yet, there is a larger lesson to be learnt in its aftermath. Institution building is one thing. Keeping it growing on a progressive path is, however, a tougher task. We need corporate statesmen who look beyond the present, care for the future, and act without personal prejudice.

## INTERVIEW | RAMESH IYER

## ‘State polls, coupled with farm cash flow, is going to be a great rural story’

Interest rates may dip further in the next one year, says Mahindra Finance's VC

OOMMEN A. NINAN

In a little over two decades of existence, Mahindra Finance has transformed itself from a captive finance firm primarily focusing on Mahindra products to bankrolling vehicles across brands. In an interview, Ramesh Iyer, vice-chairman and managing director, talks about the transformation of the company from a product-centric to a customer-centric organisation.

**How are you leveraging your capabilities to impact rural and semi-urban lives?**

■ When we started this business in 1994-1995, credit appraisal of a rural customer was unheard of. Rural customers didn't have financial statements for credit assessment and therefore, we would have to interact with customers to understand the purpose for which they were buying the product, and their cash flow ability to be able to service the loan. This meant our employees had to understand the product, product application, the cash flows that these products can generate and the customer's requirements of cash on a daily basis for their own livelihood, and then arrive at the net surplus before a decision to lend could be taken.

To get this understanding, we recruited local candidates as they are in the best position to understand the local requirement and possibilities. So, I would think, it is a very home-

**The fundamental truth is the market size (for vehicle financing) keeps growing**

grown model that we have created to suit the semi-urban and rural credit decision-making requirements.

**Does Mahindra Finance encourage local entrepreneurship at rural and semi-urban levels?**

■ We look at entrepreneurship from two perspectives – one, all our employees are entrepreneurs themselves, because ultimately a credit decision is taken by an employee.

The second level of entrepreneurship that we look for is in a customer. Most of the time we find that vehicle owners that we finance are all entrepreneurs themselves. They drive the vehicle to earn a livelihood or have their own small

shops and use the vehicle to carry material for the same. So, both our customers and employees have that entrepreneurial mindset which has been the key behind the growth of this business.

**What are the factors contributing to the growth of NBFCs over the past few years?**

■ First, I think the NBFC model by itself is a very flexible one. Unlike many other financial formats, we don't wait for the customers to come to our doorstep – we actually reach out to our customers.

Second, the flexibility also encourages NBFCs to look at proxy documents. NBFCs are also very focused, they do not do many things [nor aspire to do everything].

**Has rural India adapted to the government's Digital India initiative?**

■ Mahindra Finance has been a pioneer in introducing technology solutions. In fact, about 8-10 years ago, we were the first to introduce handheld devices, which enabled the staff to give a customer an instant receipt for the cash that was collected from him right at his doorstep or at any other location that the customer preferred to pay us. The accounting of it was completely online, without any manual intervention. From then on, we have undertaken various digital initiatives.

**Competition in vehicle**

financing is increasing...

■ From the time we started, we have seen different NBFCs, banks reach out to this market and we will now see small banks coming into this market as well. But the fundamental truth is that the market size keeps growing at every stage. I strongly believe that there is room for even more players to come in and there is room for existing players to do much more.

**With a normal monsoon and several States heading for elections, what is the likely impact on your business?**

We expect that with the continuing good monsoon this year, the farm cash flow will definitely be a great positive from a rural cash flow perspective. With four or five States going in for State elections in the next couple of years, I would think, coupled with farm cash flow, it is going to be a great story from the rural perspective for the next couple of years.

**What is your outlook on the interest rate scenario?**

■ We have always been saying that the interest [rate] is moving very, very clearly southward. With a good liquidity situation, and with not enough of pickup on the use of money so far, one would see the interest remaining a little subdued and chances are that interest levels would further go down by at least 50 basis points in the next one year or so.