If winter comes, can spring be far behind…

Udit Sureka
Head-Products
Edelweiss Asset Services

Shailendra Sharma
Associate Director–Products
Edelweiss Asset Services

Shelly's poetic lines from "Ode to Westwind" encapsulates the present situation of the Indian economy, a measured, yet a relative sense of optimism prevails amidst emerging economies, that the nation is progressing towards its rightful destiny of a brighter economic future.

The catalyzing forces that fuel such hope for an inclusive growth is through a dynamic legal environment, increased technological capabilities and a robust capital market. The plans should factor global cues that do not indicate encouraging signs of growth, Indian capital markets, true to its nature, often emanates as a steady and sustainable destination among emerging markets. It is heartening to observe that global investors still consider the Indian economy an attractive destination for their investments to maximize their returns.

The present GDP number prompted a muted applause by major international bodies, it is still poised to grow at a healthy rate of ~7 percent backed by steady indications of inflation confirmed by the Reserve Bank of India (RBI) issued recently in the Monetary Policy. Albeit a review of the GDP growth, the Indian economy looks relatively balanced compared with its global peers where the Indian growth story remains reasonably intact.

The economy-wide prevalence of resilience is the direct consequence of a raft of consistent policy reform decisions implemented by the present government resulting into structural changes expected to unlock vast reserve of value.

The intent of Modi 2.0 version remains clear to clean up legacy systems inherited from previous governments, set productive forces in motion and propel the nation towards realizing the ambitious goal of becoming a USD 5 Trillion economy from its present state in a span of 4 years. Significant change calls for courage and planning, the government spears to be unwavering in its commitment, against all odds, to achieve the targeted economic outcomes.

The demonetization looked like a controversial measure but, the nation is starting to count its intended rewards followed by another transformation with the implementation of GST, an important tax measure that lead to enough clarity in the tax systems that consequently increased investor confidence contributing towards inflation rate management.

Impactful policy decisions are expected to provide dividends in the form of constructive consequences over the medium and long terms leading to sustained economic growth. The measure to reduce repo and reverse repo rates from time to time by the Central Bank has been giving the required signals especially where the India macro-economic data published by the RBI on inflation remains stable. The unique economic model and continuous efforts should relatively insulate India from future global shocks as seen in the past.

From a broader horizon, enough action and suitable incentive is likely to have an inversion effect on the myopic view of the Indian economy of slowdown that dilutes the long-term effects of strategic shifts, and instead, focus attention on the lasting impacts of important policy decisions suggested in the recent budget. In order to add stimulus to the business earnings, the Finance Minister (FM) has widened the scope of low corporate tax rate by 25 percent bringing cheer to India Inc. Tax cuts are regarded as economy-boosters that spur exports and unlocks cash for the beneficiaries who shall, in all probability, post better results in their upcoming financials.

Item high on the agenda is the revival of public sector banks (PSB) thus, proposing to offer capital infusion to the extent of INR 700 billion. This will give PSBs necessary pause to take stock of their current situation, reorganize their business practices, manage accumulated stressed assets and revert to profitable operations. Given the recapitalization the banking system will be subject to tighter regulation and operational oversight to ensure a clean break from undesirable practices and the adoption of sound business principles, thereby ensuring revival of profitability and risk-resilience of the PSBs.

The budget also proposed steps to boost overseas fund flow in India by the announcement to merge the non-resident Indian (NRI) and foreign portfolio investor (FPI) routes of investment in India, increasing statutory FPI investment limits, and simplification of documentation processes. According to experts, these measures would provide a more conducive regulatory environment to FPIs, especially NRIs. The budget has laid down clear policy frameworks to boost capital markets. Highlights include:

- Easing the liquidity situation by permitting banks to acquire NBFCs, thereby enabling NBFCs to monetize their assets.
- Ensuring increased FPI and FDI participation in the bond markets.
- Rationalising transaction tax on derivatives
- Tax concessions for funds to promote government divestment

The initiation to optimise corporate tax rates by would go a long way in promoting capital investments. In addition, rationalization of tax incentives to Indian International Financial Service Centre (IFSC) should motivate investor community to provide a level playing field amongst offshore financial centers. All-in-all the budget attempted to meet the sectoral expectations however, it remains to be seen how the proposal to overhaul the five-decade old tax regime through the Direct Tax Code would positively impact business efficiency in the financial service sector.

Better and cleaner roads infrastructure mean better logistics and seamless trade, in turn resulting in healthier earnings. However, the automobile sector seems to be undergoing sectoral stresses with inventories piling up and down-trending sales numbers. There are many contributing factors to this eventuality, an important one being the liquidity crunch occasioned by the Non-banking Financial Company crisis. The sector may undergo higher levels of stress in connection with the shift from BS-IV to BS-VI standards from April 2020. Being cognizant of these facts, the government's proactive dialogue with relevant stakeholders to pre-empt the economic situation and address them in advance is a welcome step to resolve stress at the right time for revival.

All the above factors augur well for the capital market investor. Clean corporates with pristine balance sheets contribute towards higher market efficiency. To look differently, slowdowns also present an opportunity to buy good-value stocks and even businesses at reasonable prices. The FM's suggestion to dilute stake to 65 percent from 75 percent may have been priced in by the markets by now however, the measure should attract more foreign money, resulting in advantageous selection of the most efficient companies. It, in turn, means that average investor would benefit from high performance of good companies.

The growing financial integration with fast cross-border mobility of private capital inflows typically leads to rally in the Indian capital market where government is making renewed effort to broaden horizon of the Indian markets globally. One such effort is formalizing a venture between National Stock Exchange of India and Singapore Stock exchange to introduce investment products in the IFSC, that offer alternate investment opportunities for investor groups to increase the length and breadth of the capital market activities in India.

As part of capital investment plan and focus as per Economic Survey, the government is all out full throttle to enhance the platform in Round 2 series through ease of doing business, liberalizing investment guidelines, rationalizing reporting and compliances and harmonizing multiple regulations for boosting the investment sentiments. Importantly, to immediately alleviate the looming slow economy, measure of government spending complemented by fiscal reforms is likely to put growth back on track.

India's unique design and its designomics will earn us the envisaged target of USD 5 Trillion economy by 2024. The rainbow demography itself is our core strength. The consumption theme is very much intact and should propel India to achieve the ambitious target set by the government.

Slap the naysayers. Let optimism prevail. And let us wait patiently for that spring of 2024.