



Equity Outlook

REBOOTING INDIA...

We all know that when there is a virus in the computer – we shut it down, we clean the system, at times even format the disk, only to restart again and there we see the computer working at better speed, minimal hang-ups and efficient output.

In India haven't we had virus of different types and at different times. Of the many such viruses – one has been that of black money – a mammoth factor creating the divide between the haves and the have-nots and keeping the bottom of pyramid deprived of the benefits of liberalization. Of the approx Rs 17 lakh crore of currency in the country – Rs 500 and Rs 1000 notes accounted for almost Rs 15 lakh crore. Estimates go around that of these say 15 - 20% is hoarded by offenders of law and will find it difficult to come back in the system, another 15-20% of money was kept as a contingency or emergency requirement by the lady in the home in their cupboards. Of the balance 60-70% - half can be assumed to be created to purchase an asset say home, auto, consumer durable, etc – it means roughly 30-35% (approx Rs 5 lakh crore) of currency was in circulation or being used for day to day business activity. At the current rate of note printing of Rs 9000-10000 Cr per day, it will take 50 days for currency to circulate for routine life and another 50 days for building up asset purchases. Hence logically, we will see normal growth come back after q4FY17. A reasonably long time to accumulate stock we liked before November 8, only 20-30% cheaper.

Absence of unwanted incidents like mass suicide or mobs setting fire at bank branches has clearly reflected a spirit of change the middle class of India was silently hoping for. A meticulous planning from government should indeed be applauded. Financial Inclusion by opening over 25.5 crore Jan Dhan account. Linking to Aadhar – over 93% of the adult population has a biometric ID in India. Plugging the loophole by Direct Subsidy transfer in a phased manner, creating a corpus for Infra spend, creating abundant liquidity to take interest rates southward and finally roll out GST to broaden the tax base, in a 30 month period building blocks of a structural growth story are being created.

India is in a reboot mode – attempt to eliminate the virus of black money, virus of identification, virus of poor infrastructure, virus of high interest rates, virus of multiple taxes, virus of inefficient subsidy transfer will all pave way for better times over the medium term.

The sudden transition has its own pitfalls; the pros far outweigh the cons. There will be some pockets of businesses that will take time to revive back. Businesses with long working capital cycle, businesses with cash dealings (MFIs / NBFCs, 2-wheelers), businesses with long chain from the final customer (Chemicals, Cement – largely B2B) will take time to revive back and will face headwind in the near term.

There is a Christmas sale in the markets, we remain selectively greedy and look at the traditional means of investment, namely modest valuation and reasonable certainty of business outlook – we continue to hunt for opportunities in this otherwise grim economy.

Happy Investing !

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