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Tapping The Big
COVID Market

Rebalancing
Investment



Business Today

May 3, 2020 ₹100

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HOW TO JUMPSTART THE ECONOMY

**P. CHIDAMBARAM, MEGHNAD DESAI, BIMAL JALAN,
D. SUBBARAO AND JUNAID AHMAD PRESCRIBE
HOW TO RECALIBRATE BUSINESSES, GET PEOPLE
BACK TO WORK AND BOOST GDP**

From the Editor

The Coronavirus Economy

From here on, the world history will probably be quoted in pre-coronavirus and post-coronavirus eon stamps. For it is not just a healthcare shock to humanity. It's an economic shock, humanitarian and livelihood shock, a consumption shock, a stock market shock, fractured supply chain shock – all rolled into one.

UNCTAD believes that India and China are among the few world economies least likely to fall into recession. But don't be surprised if it chooses to revise India outlook. World Bank already has – to the most pessimistic outlook yet – a near flat growth of 1.5 per cent for FY21.

Even though India has a host of positives going for itself. First, whether it is the Modi government's precocious, pre-emptive lockdown (now sealing), the warm weather, the universal BCG vaccination policy at birth, or just luckily a weaker strain of the virus, India remains a model of containment for the coronavirus-stricken world – notwithstanding the economic and humanitarian fallout it has to endure.

Two, domestic economy accounts for more than two-thirds of India's GDP. That not just makes us the masters of our destiny but also ring-fences our economy from the impact of a global downturn to just one-third of our GDP.

Three, this crisis is empowering India Inc with new capabilities, new business models and new opportunities that may not have been imagined before. Mahindra, a conglomerate, may see a business in medical equipment such as ventilators, PPEs, face shields, masks and gloves; Arvind Mills in technical textiles, an emerging field; CavinKare and Dabur have new business lines in sanitisers; home delivery platforms – Swiggy, Zomato and Dunzo – have realised even FMCG distribution can be a business line; for Lybrate and Healthassure, the spike in video medical consultation is their Paytm-during-DeMo moment; Bulk Drug Parks aimed at promoting local manufacturing of active pharma ingredients will encourage local raw material production; and local medical devices firms believe tie-ups forged in this hour of need will stay for the long time, giving them a new lease of life.

India's apprehensive and gingerly introduction to the drone industry is now exposed to enormous possibilities as hourly drone surveillance of sealed localities has become the norm. Do read Sumant Banerji and P.B. Jayakumar's reports in the following pages.

Or, take a bow for India's US FDA-paranoid pharmaceutical industry. Its global reputation as a producer of quality pharmaceuticals has risen several notches since the sudden surge in world demand for Hydroxychloroquine (HCQ) – the most-hyped hope against coronavirus in the absence of a vaccine. It's a huge leg-up for the sector which is paranoid of the whimsical pounding from the US and British FDAs. The same drug administrator has now allowed re-opening of an HCQ plant by Ipca that had been shut for allegedly producing medicines unfit for human consumption. From US to Brazil to Israel and Indonesia, patients will be administered "Made-in-India" HCQs.

Given India's latent economic potential, economists expect a sharp recovery post-lockdown. But how can we ensure that the universal expectation of a V-shaped recovery does not turn out to be a prolonged U-shaped one? Clearly, India needs to jump-start its economy post lockdown.

We asked P. Chidambaram, Bimal Jalan, Meghnad Desai, D. Subbarao and Junaid Ahmad for their prescriptions on how to restart India's post-coronavirus economy. Read on.



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India's Weak Financial Frontier

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Best Advice I Ever Got

"Be prepared to listen; be open to criticism"

Acharya Balkrishna

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AnIMPACT Feature

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The Point

INDIA'S WEAK FINANCIAL FRONTIER

The country's financial position has been worsening for several quarters now; the coronavirus outbreak has made things worse

By **Shivani Sharma** | Graphics by **Tanmoy Chakraborty**

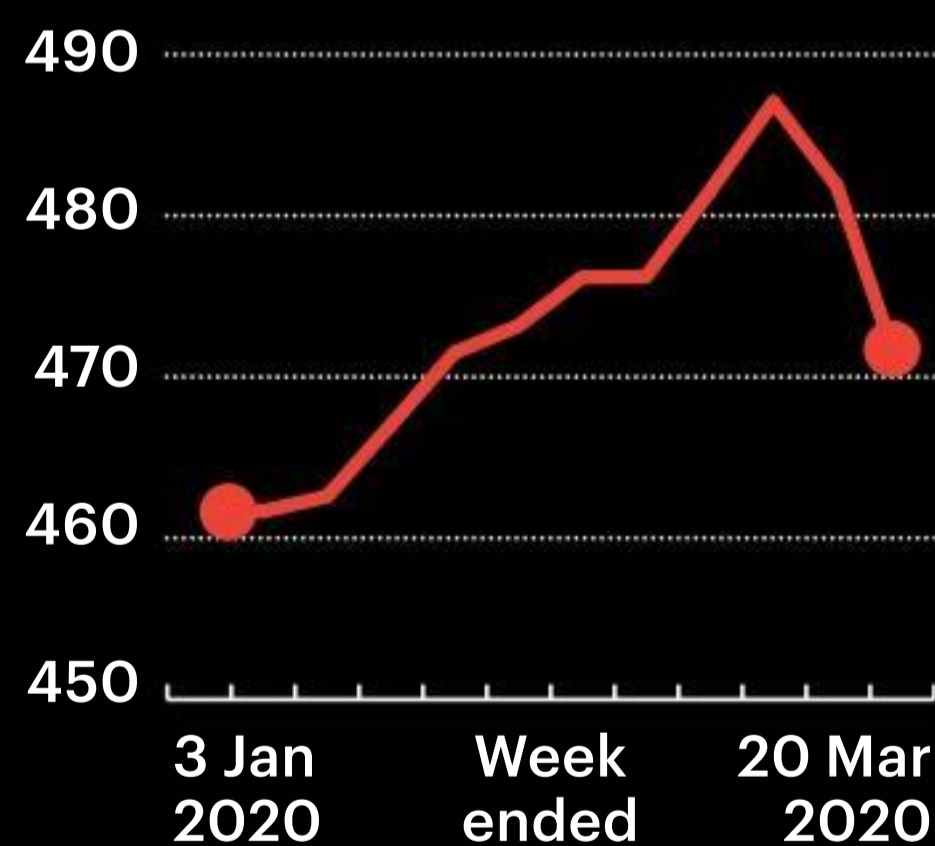


FOREX RESERVES DIP \$12 BN

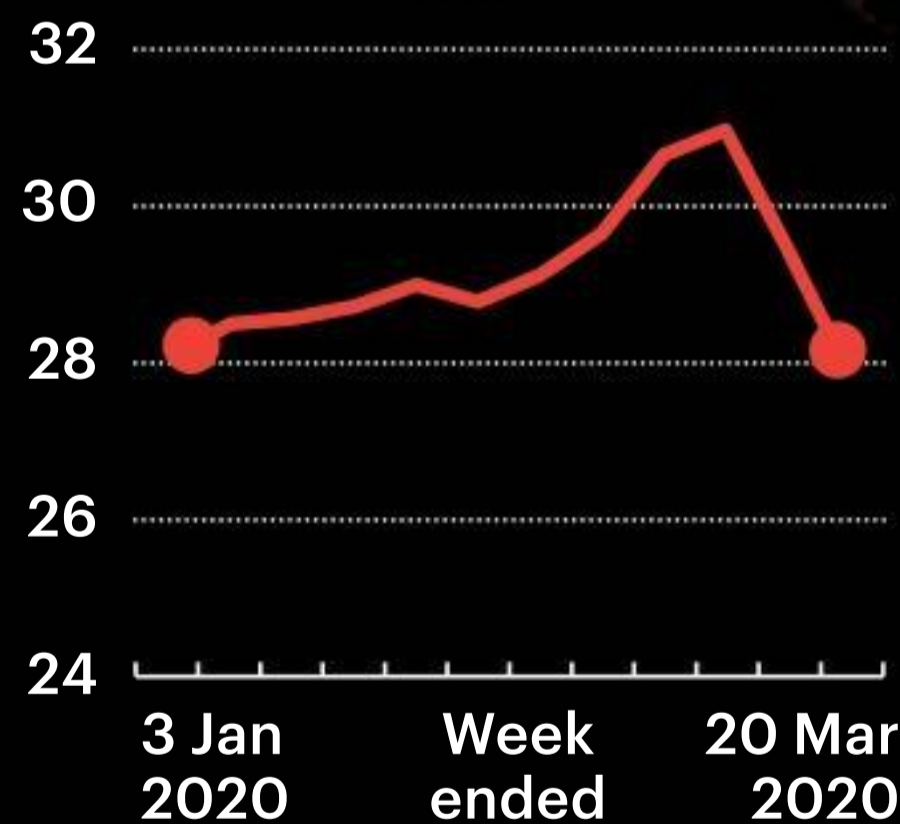
Foreign investors panicked and withdrew money in week ended March 20. Gold reserves fell \$1.6 billion to \$27.9 billion

(\$ billion)

FOREIGN EXCHANGE RESERVES



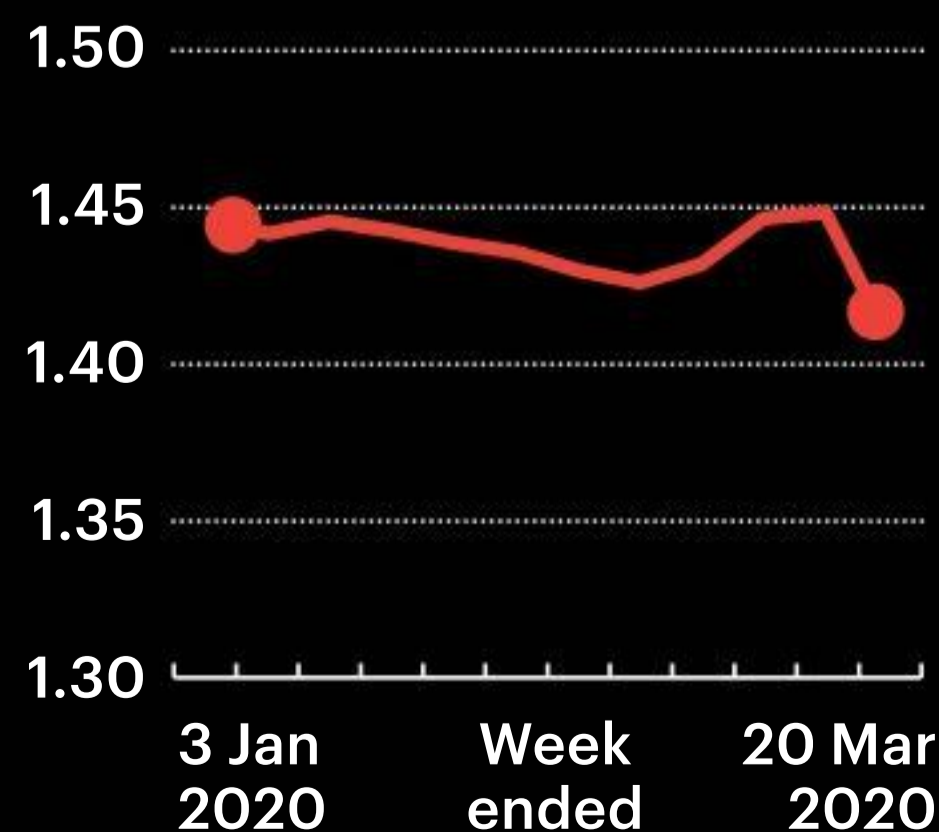
GOLD



FOREIGN CURRENCY ASSETS



SPECIAL DRAWING RIGHTS



\$10.3^{bn}

Fall in foreign currency assets, a major component of the overall reserves

\$297bn

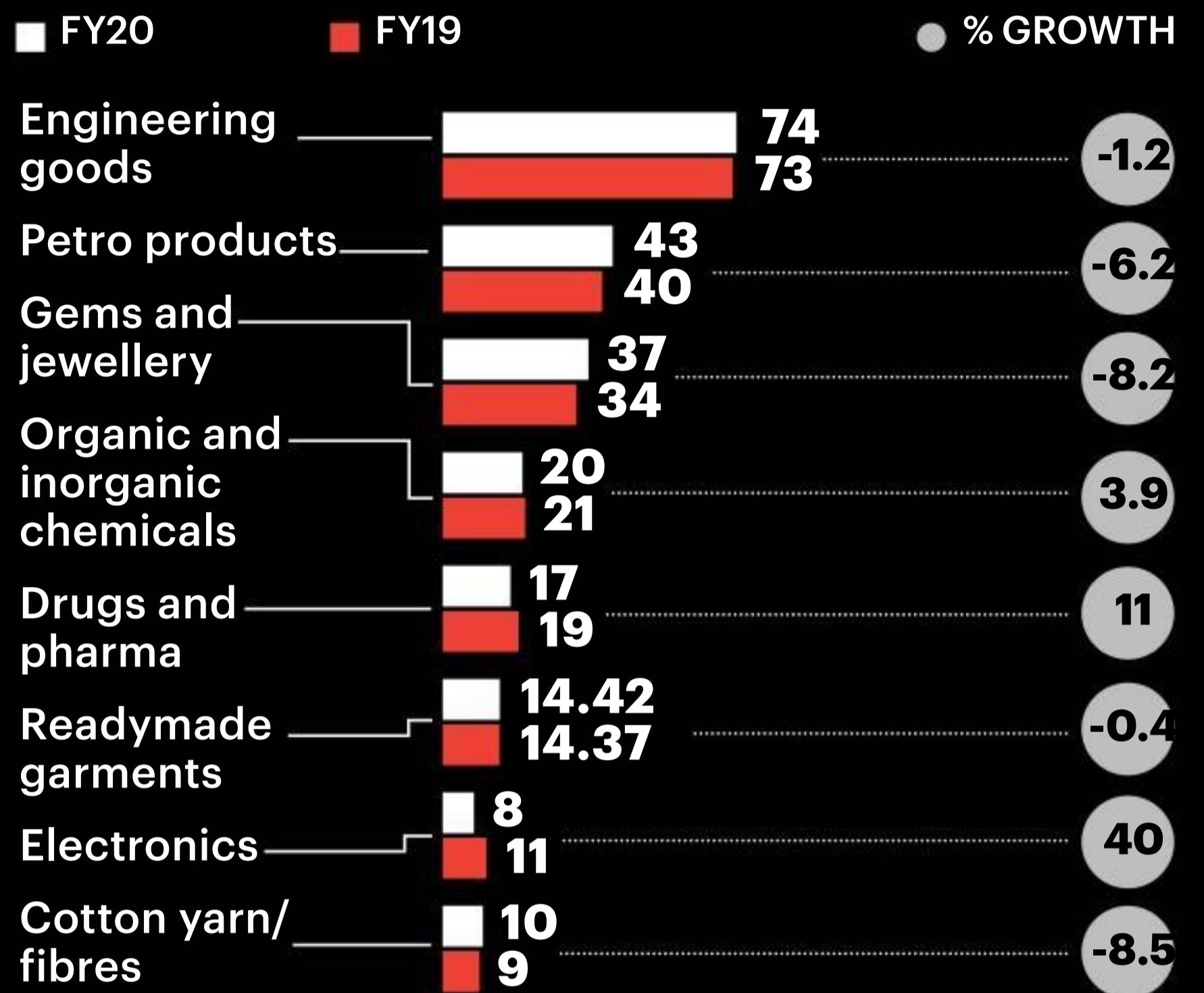
India's total exports (April 2019-February 2020), down 1.5 per cent from FY19. The country's imports were also lower at \$470 billion



EXPORTS REFUSE TO PICK UP..

Three of the top five exports in terms of value saw negative growth in the April-February period

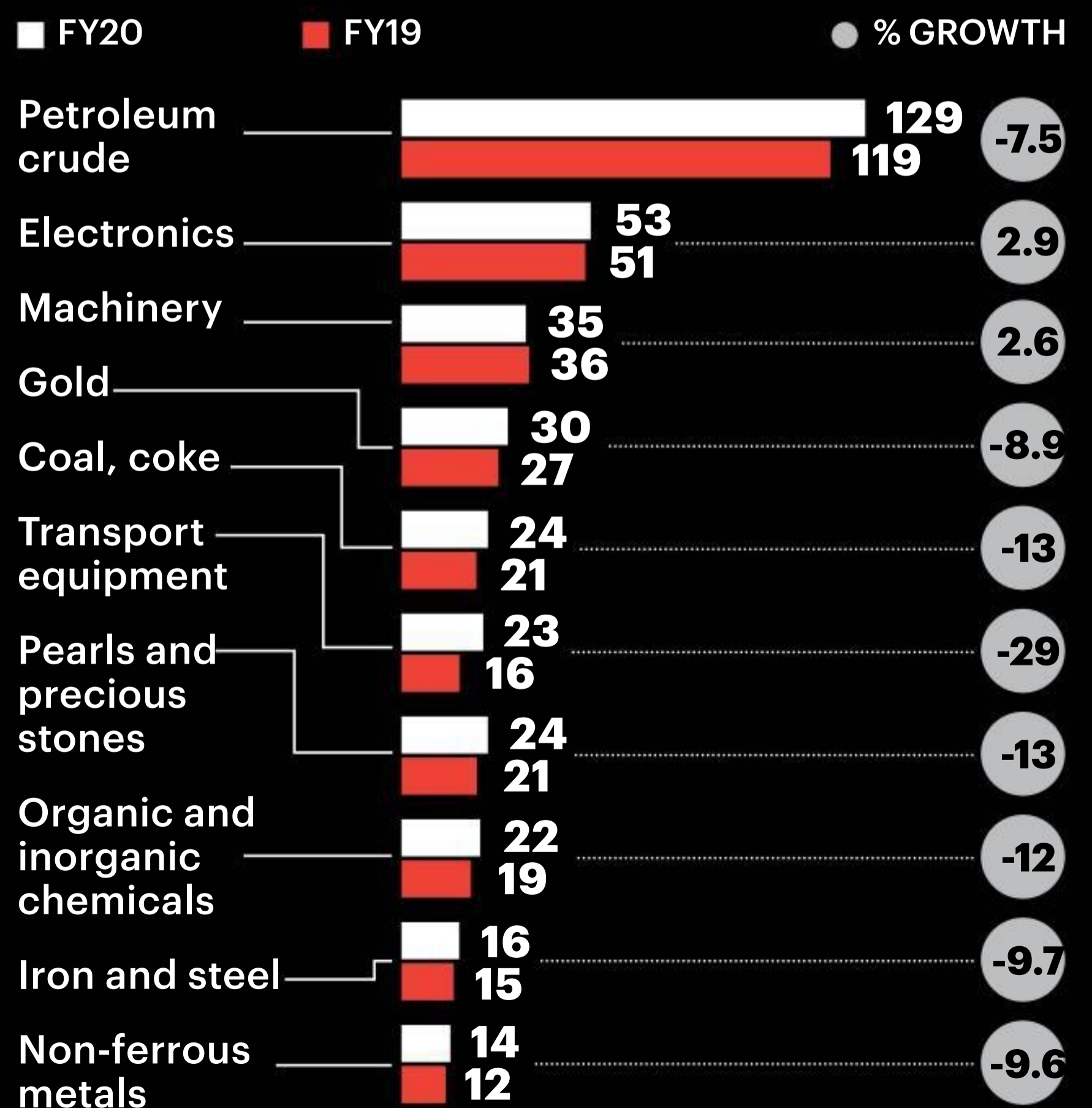
INDIA'S MAJOR EXPORTS (\$ BN): APRIL-FEBRUARY



...THOUGH IMPORTS TOO CRASH

Imports fell at a higher rate of 7.3 per cent; this was due to lower crude oil prices towards the end of the period and decline in domestic demand

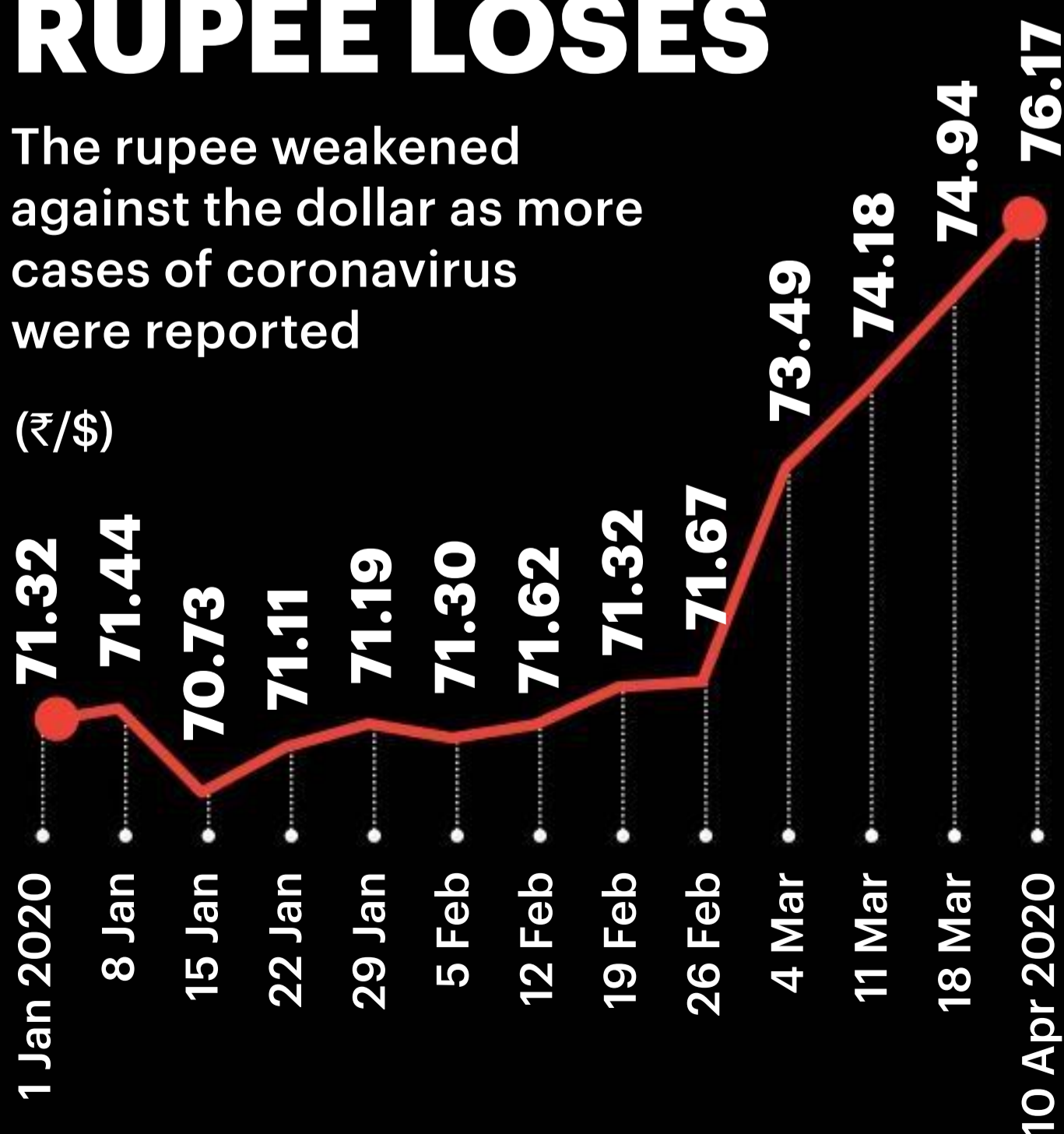
INDIA'S MAJOR IMPORTS (\$ BN): APRIL-FEBRUARY



RUPEE LOSES

The rupee weakened against the dollar as more cases of coronavirus were reported

(₹/\$)

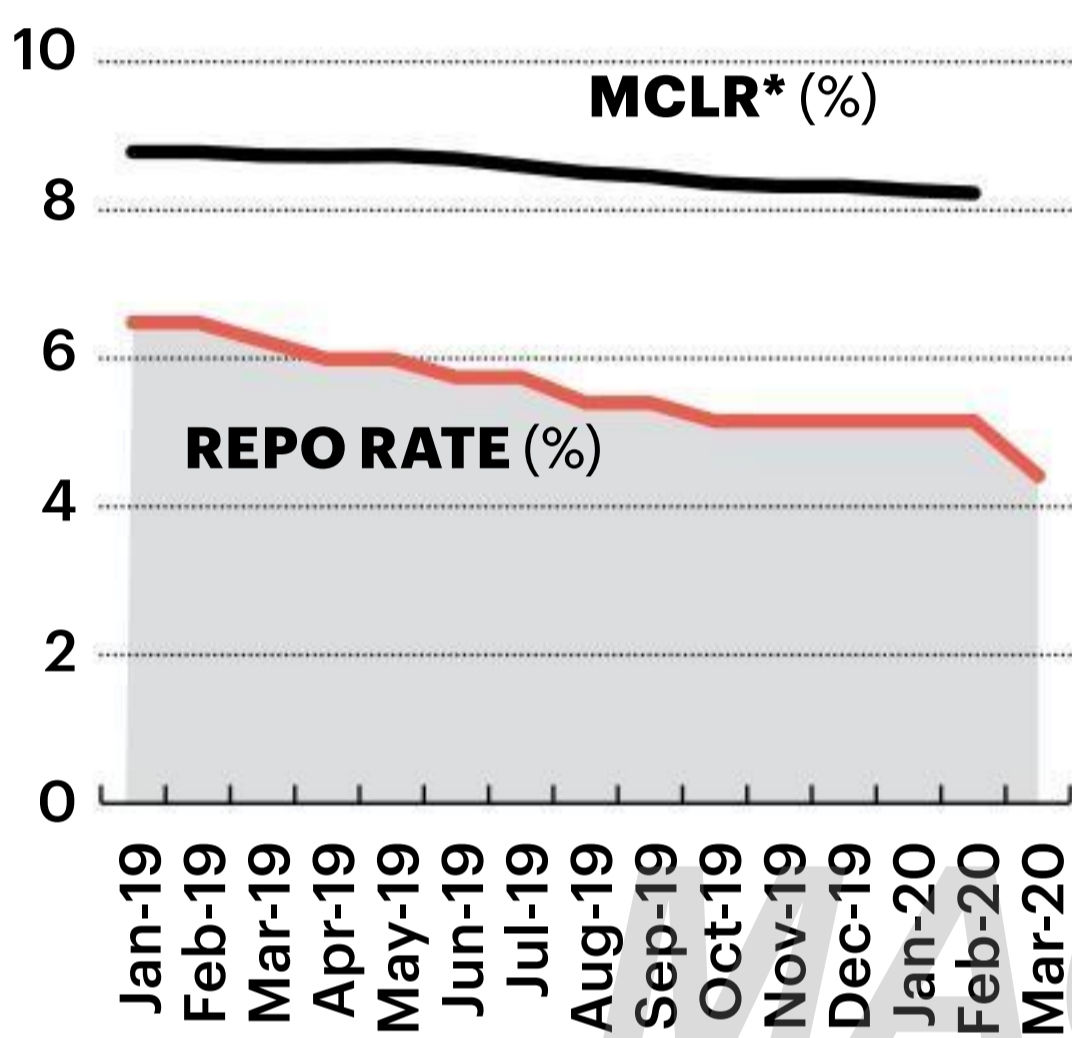


Source: Financial Benchmarks India

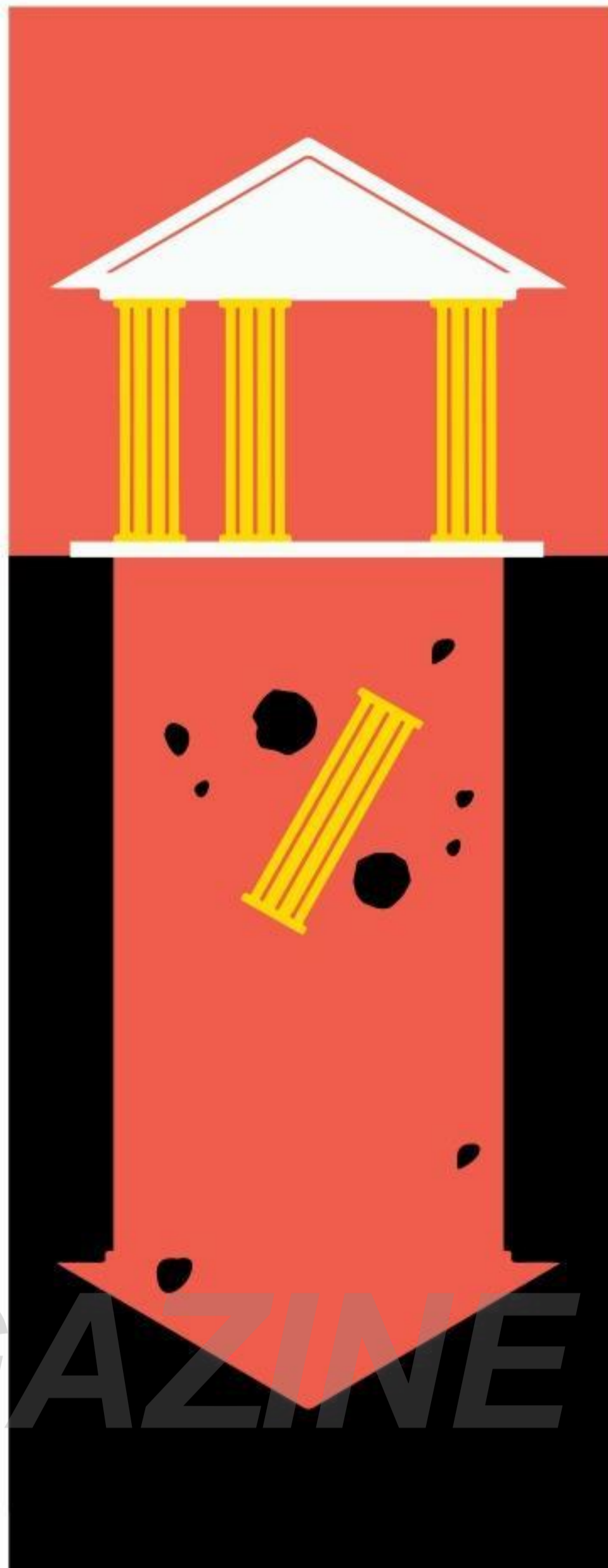
Source: PIB

REPO RATE DOWN TO LOWEST

The Reserve Bank of India (RBI) has cut the repo rate by a cumulative 1.35 per cent since January 2019. The sustained decline can be attributed to low retail inflation in the economy



*MCLR: Marginal Cost of Funds Based Lending Rate. Average of scheduled commercial banks considered; Source: Care Rating, RBI



4.4%

The current rate, after a reduction of 75 basis points, is the lowest since 2001

6

Number of times the central bank has reduced repo rate since January 2019

59

BASIS POINTS

Fall in average MCLR* since January 2019; much lesser than the fall in repo rate. So, retail loan interest rates have not reduced much

0.28%

Priority sector lending saw a minuscule increase (y-o-y) since February 2019

0.67%

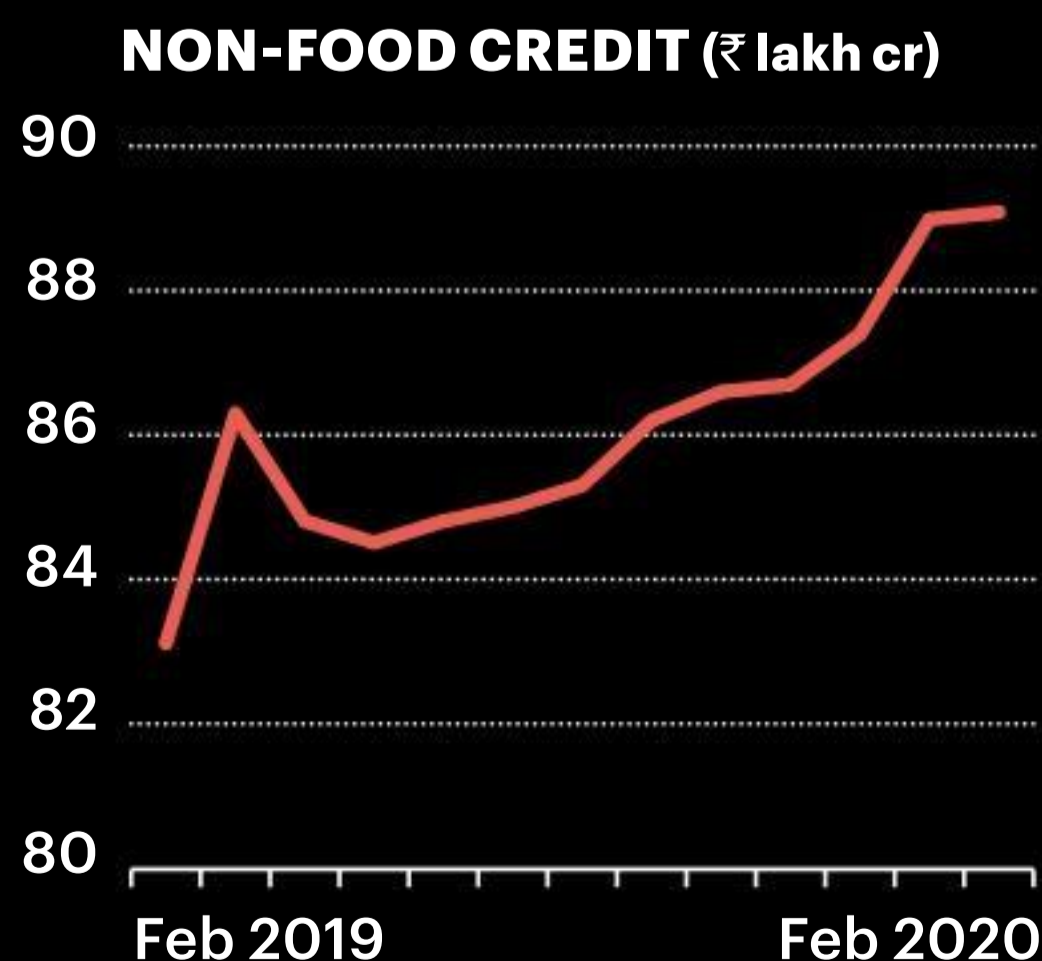
Loans to industry also saw tepid growth (y-o-y) in the same period

17%

Biggest y-o-y jump in personal loans to ₹25 lakh crore

Non-Food Credit Up...

...But priority sector lending and loans to industry have decreased from January 2020



Source: RBI

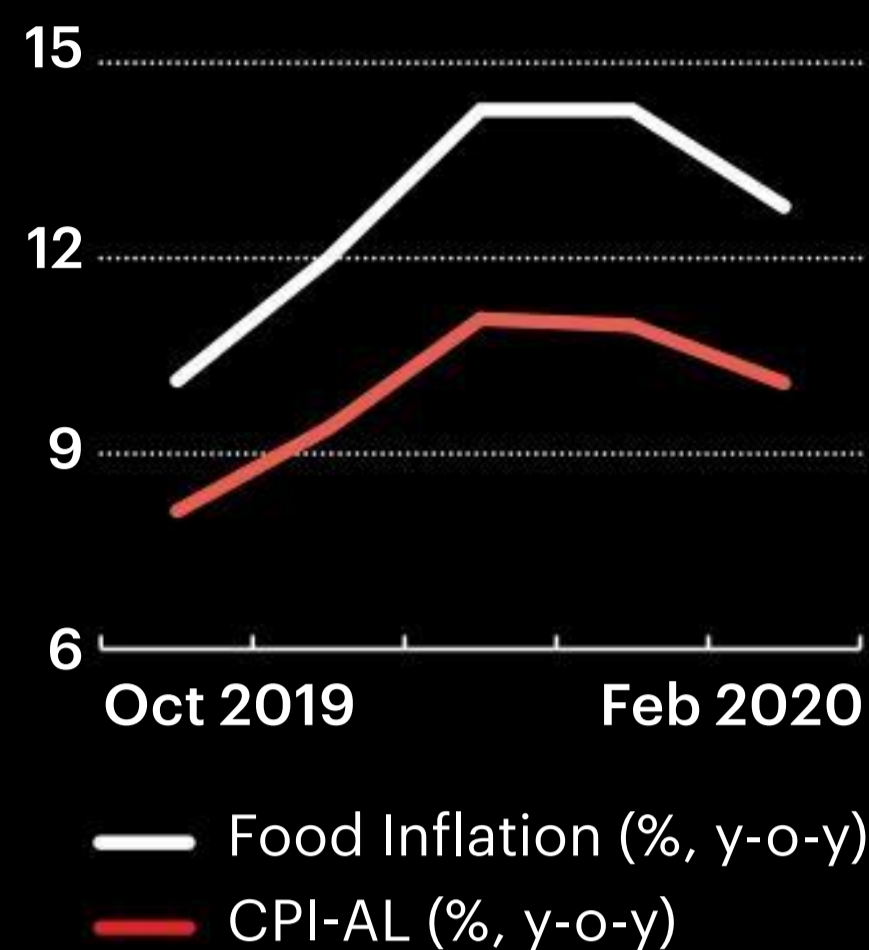


Retail inflation at a low

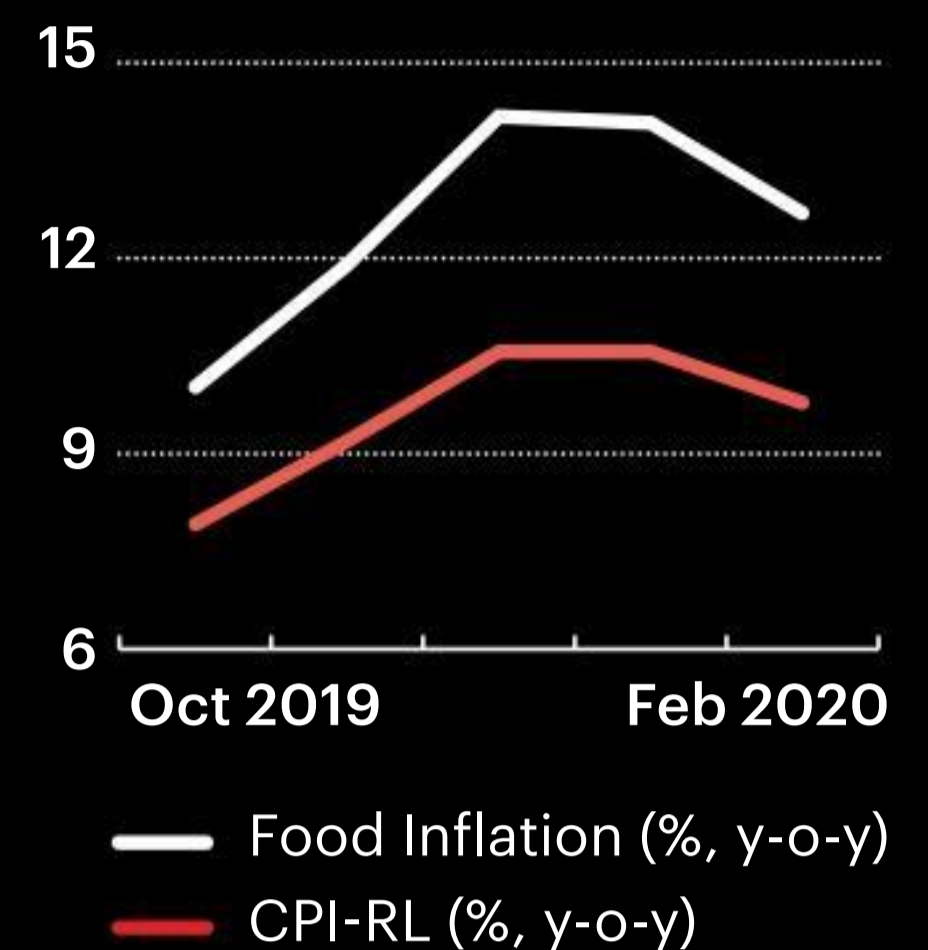
Food inflation has slipped quite a bit for both agricultural labourers (AL) and other rural labourers (RL)

Source: CMIE Economic Outlook, Crisil

CONSUMER PRICE INDEX-AL



CONSUMER PRICE INDEX-RL



Bumper Rabi Crop Expected

Higher acreage and reasonably good weather are expected to lead to better production

Y-o-Y % change

AREA SOWN

PRODUCTION*

FOODGRAINS

Cereals
Wheat
Rice



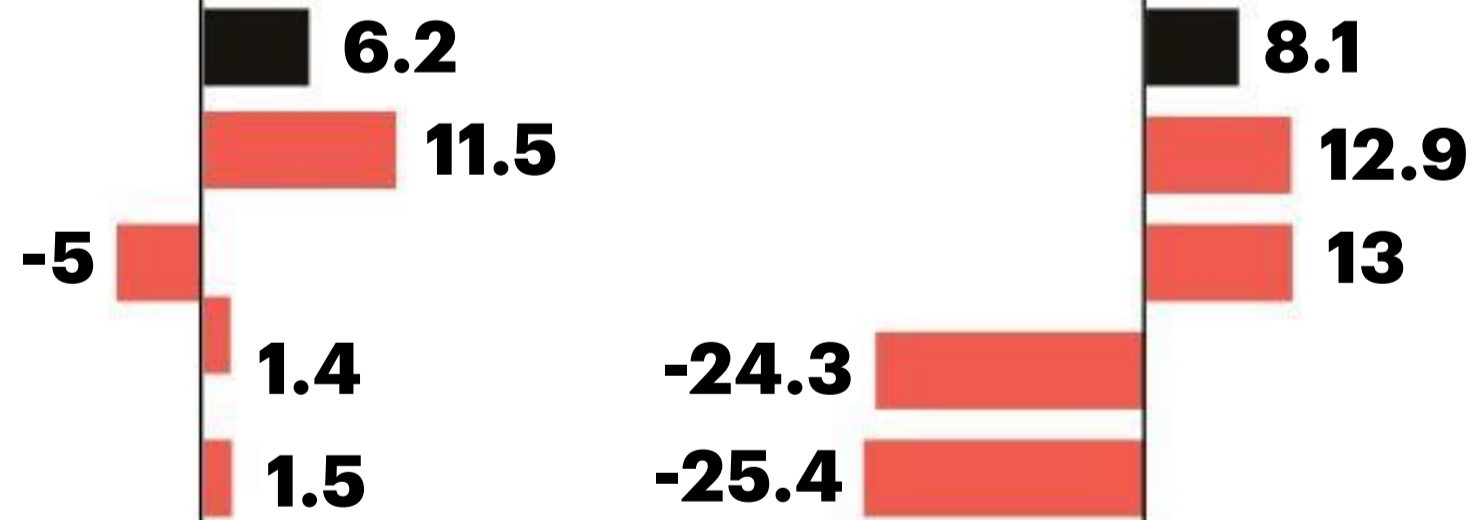
COARSE CEREALS

Jowar
Maize
Barley



PULSES

Gram
Masoor
Urad
Moong



OILSEEDS

Rapeseed & mustard
Groundnut
Linseed
Sunflower



13.8%

Among foodgrains, rice to see most increase in area sown as well as production (up 7.5% y-o-y)

149.6

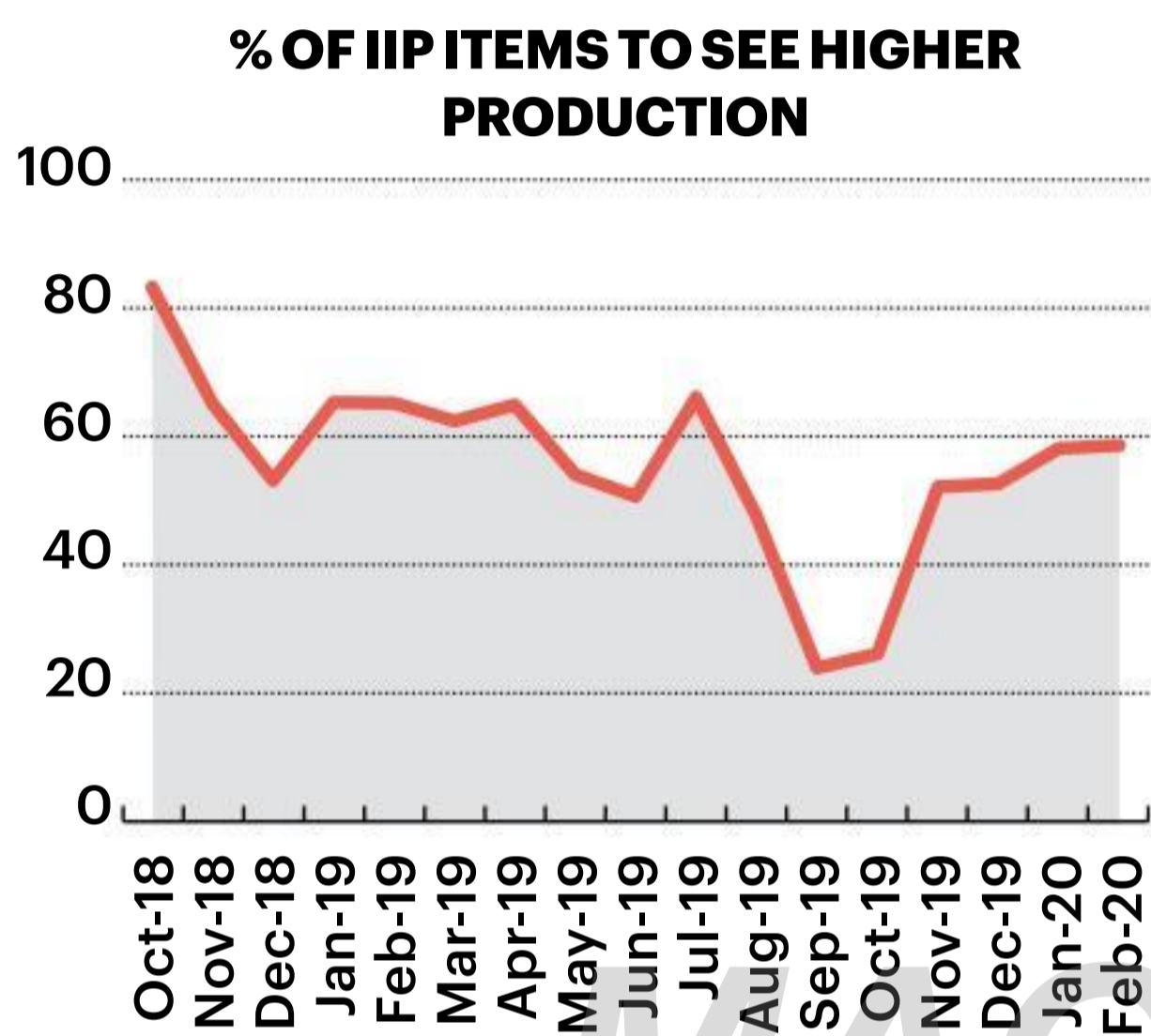
MILLION TONNES
Expected rabi crop production as per advance estimates in February 2020



* Production data as per second advance estimates
Source: Ministry of Agriculture and Farmers' Welfare

PRODUCTION SLOWS

Of the 839 products that are used to measure Index of Industrial Production (IIP), only 23.9 per cent saw growth in September 2019, the lowest. Since then, there has been improvement but it has not reached the level of a year ago

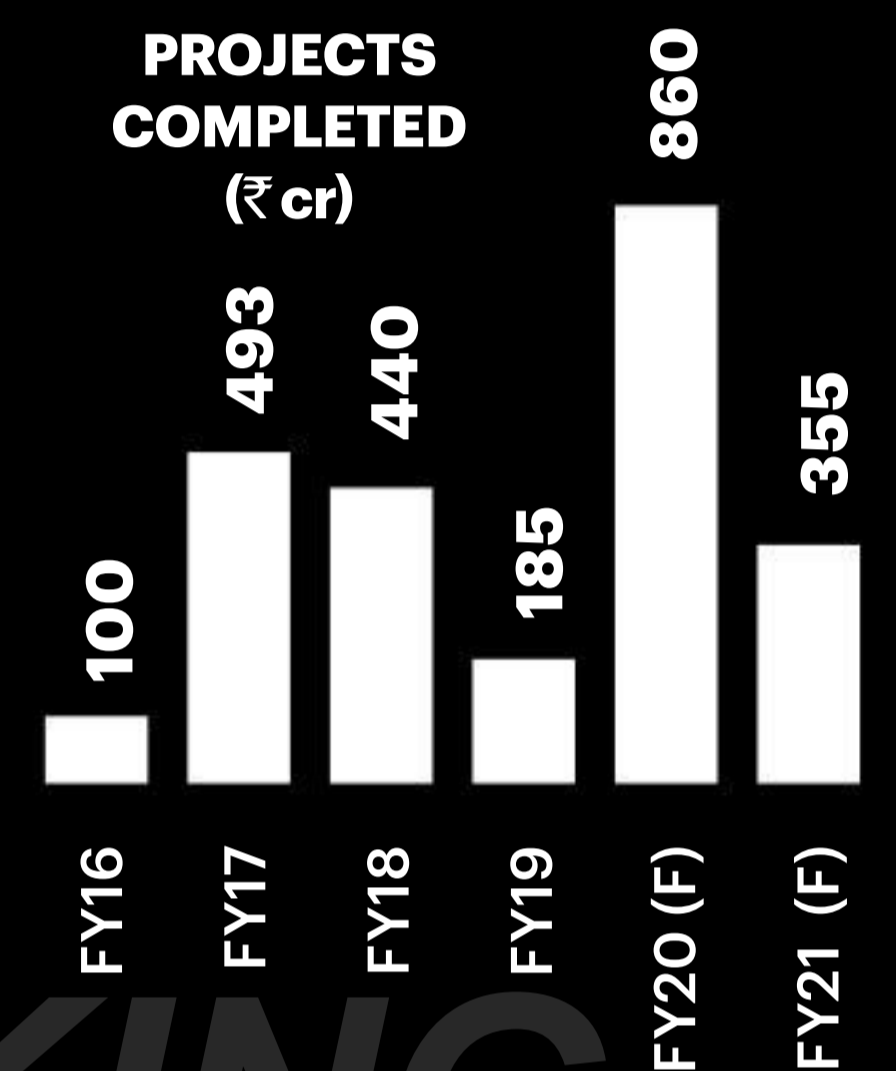


Source: Ministry of Commerce



Capex dwindles

Export-focused mining and construction equipment projects took overall capex to 5-year-high in FY20. But FY21 sees a dip with projects worth only ₹355 crore



Source: CMIE

Viral Fever

Returns of both Nifty and BSE Sensex fell over 23 per cent in March 2020



NIFTY 50



S&P BSE SENSEX



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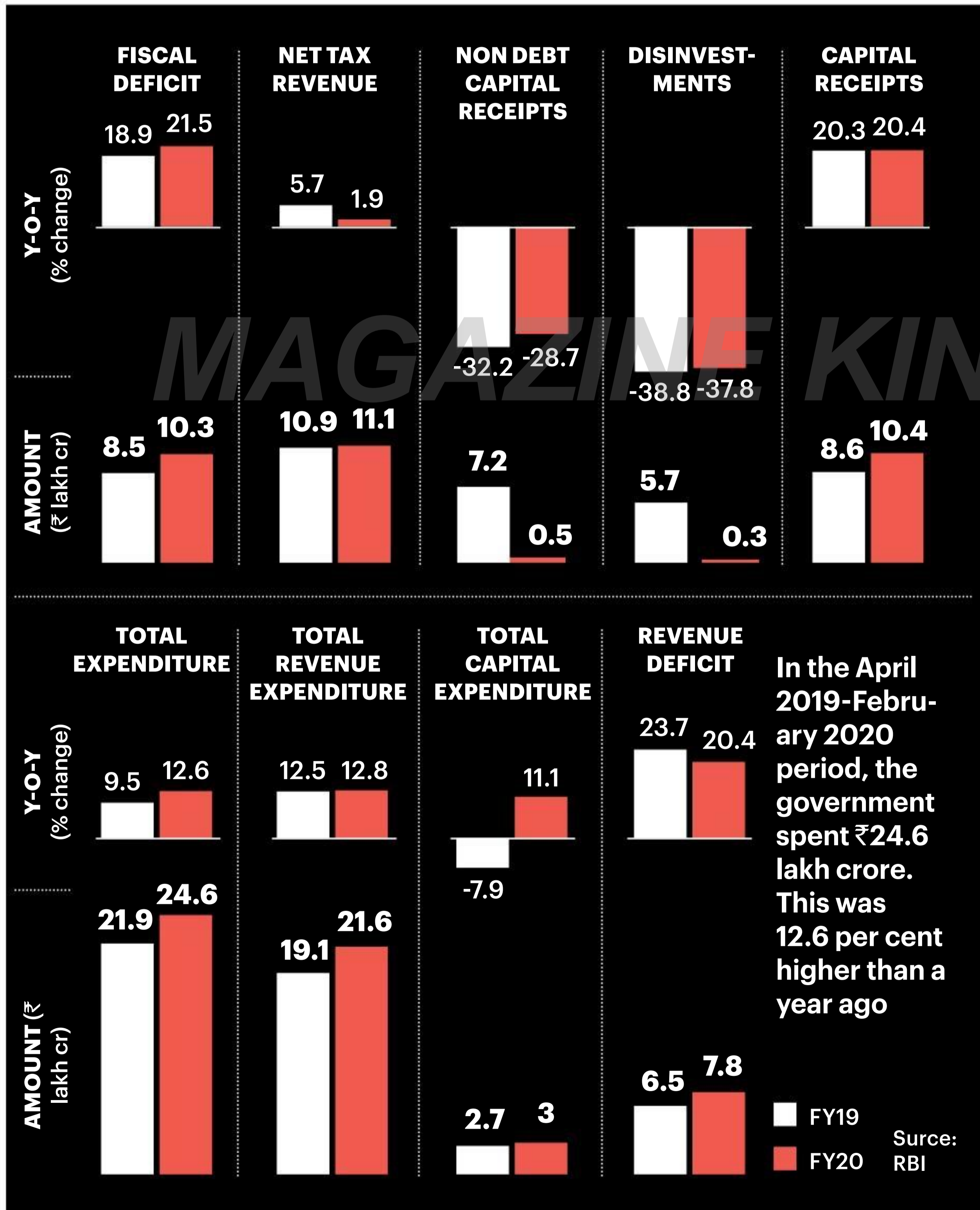
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GOVERNMENT'S FISCAL POSITION WEAKENS

India's gross fiscal deficit (GFD) expanded to ₹10.3 lakh crore in FY20 till January. Growth in receipts has been less and net tax revenue has fallen



MAN OF ACTION

Dr Aneel Kashi Murarka is a man on a mission, he believes in the Gandhian philosophy of "Be the Change You want to be". Known to be extremely passionate about giving it back to the society, he is the face of the New era philanthropy.

Q What keeps you going? What makes you wake up every morning thinking about helping others?

Trust me, it gives me immense satisfaction when I extend a helping hand to the needy. I believe one should find a little time to help make life better for one's fellow citizens. That's why we're called human beings. It's in my DNA to serve society in whatever way possible. My grandfather, the late Chiranjilal Murarka, was a well-known philanthropist of his times and, then, my father, Kashi Murarka, who now continues to do a lot in terms of public service and social betterment. I have long learned that live life as if there is no tomorrow, end of our journey on Earth is inevitable, why not do what's best possible for others."

Q What is the most satisfying project that you have ever taken part in?

Our Social Awareness Organisation Ample Mission have done over 100 social projects or campaigns so far. The most satisfying one for me is the Jaipur Foot Distribution Camp organised by Narayanidham- Lonavala, where people who never walked in their life, after receiving it went back home walking on their own feet, it's phenomenal and the most blessed thing towards mankind. While

few others who attended did so later after their surgeries which we supported. Each person was brimming with renewed confidence due to mobility they got from wearing Jaipur Foot in turn gave them freedom to take care of daily needs and reach out to their long-term goals in life.

Q What do you consider as the most charitable thing you have ever done in your life?

The construction of a Hindu crematorium Shivdham in Goregaon east, Mumbai. We have not only conceptualized and constructed it, our trust still continues to do the care taking since last 11 yrs. It will go on, as I mentioned it earlier it will go on till we live on this planet.

Q Who helped you the most to achieve your dream?

I'm indeed blessed to have such wonderful parents in life. Second, I would rather quote very honestly my counterpart, my better half...my wife Sangeeta who has stood beside me throughout my life journey of wherever I stand today. And I'm glad to share this today, my son Sidhaant has taken it absolute lead on all these social activities towards mankind. They are those strong pillars who

stood beside you and still stand beside you to see that we have a proper sail through in our journey of life.

Q Do you see yourself 15 or 20 years from now still being involved in philanthropy?

Well, age is just a number. Be it yesterday, today or tomorrow, whatever we are doing, we will keep doing. It's not scale the heights in terms of work that we want to reach but just keep that momentum going and going till we live on this planet. Before I leave, I will ensure that our next generation will surely continue these efforts we are doing. There is no such thing as 15 Or 20 yrs barrier, these things are never ending and the show must go on.

Q What is your advice to all other people out there, who have the opportunity to help?

Simple and very sweet two liner –God has given you this human life. It's not about what quantity you do, it's about the quality of work you do...and whatever you can. Everybody is that competent enough to do that little bit for the society. Just keep doing and the world will be a fantastic place to live in. Give back to society, before you leave the world.

Economy



MAGAZINE KING

Hitting the Panic Button

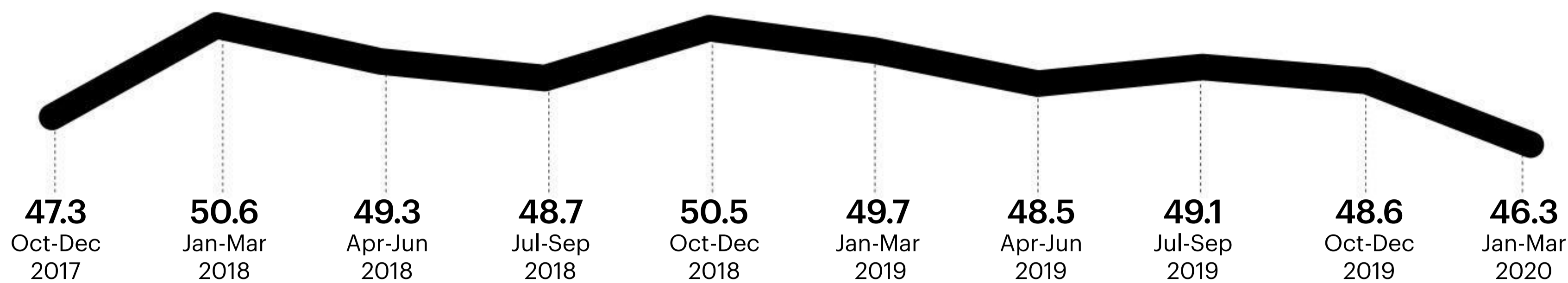
BUSINESS CONFIDENCE TANKS TO ITS SECOND-LOWEST LEVEL IN NINE YEARS AS RESPONDENTS EXPECT THE CORONAVIRUS CRISIS TO LINGER ON FOR MORE THAN THREE MONTHS, REVEALS THE LATEST BUSINESS TODAY-CFORE BUSINESS CONFIDENCE SURVEY

BY MANU KAUSHIK
ILLUSTRATION BY RAJ VERMA

• • • •

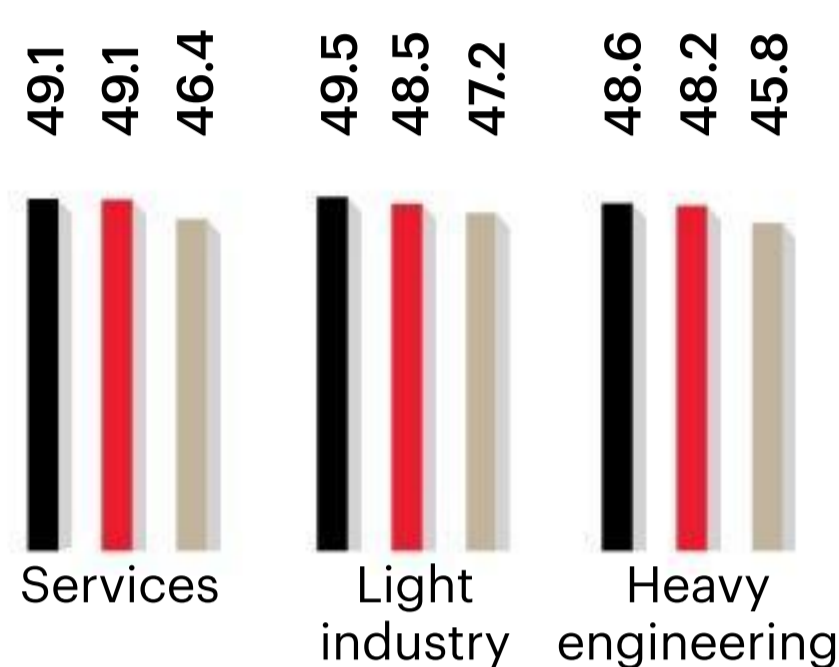
Losing the Mojo

BCI dips sharply as coronavirus shuts down large parts of the economy



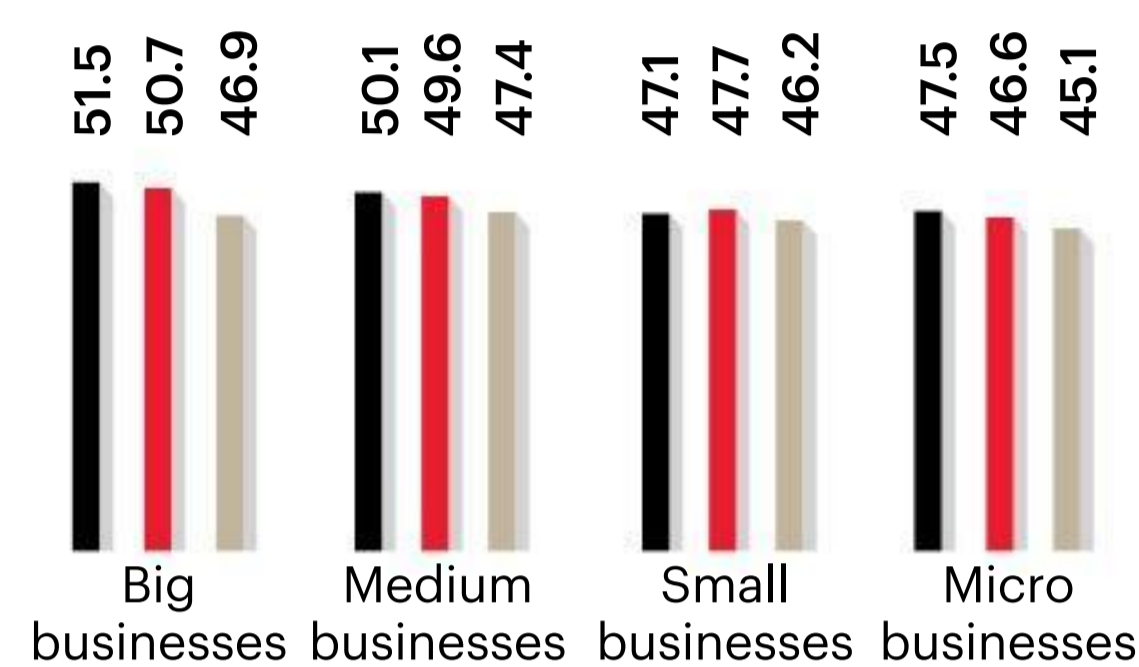
BCI by Sector

Heavy engineering is most downbeat



BCI by Size*

Small businesses have been the worst hit

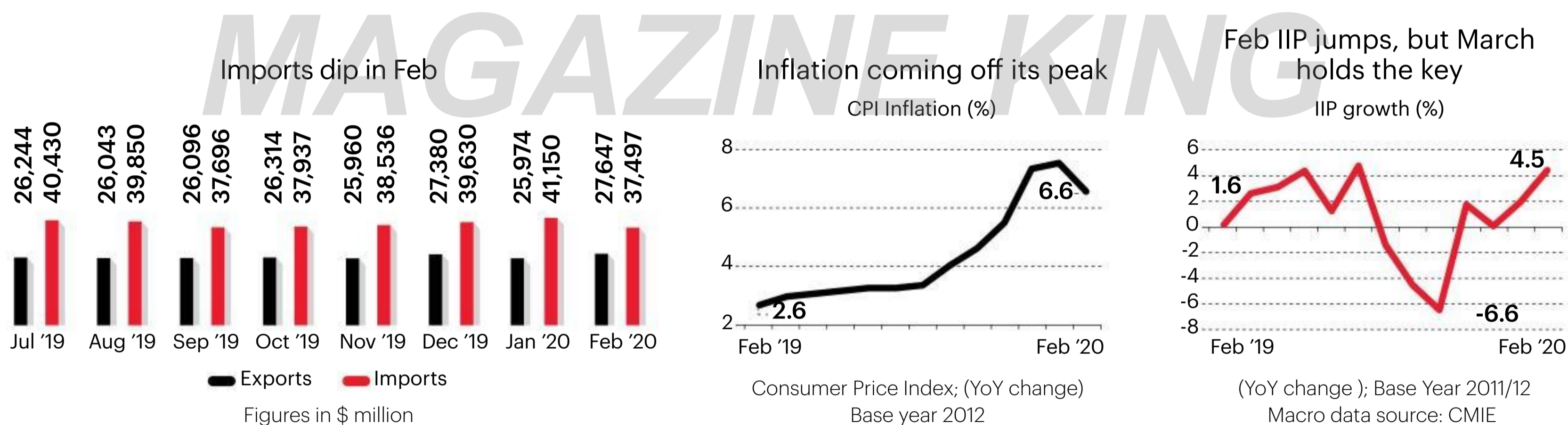


*Big businesses: Turnover > ₹500 crore; Medium businesses: Turnover ₹100-500 crore; Small businesses: Turnover ₹5-100 crore; Micro businesses: Turnover < ₹5 crore

■ Jul-Sep 2019 ■ Oct-Dec 2019 ■ Jan-Mar 2020

Macro Trouble

Imports dip sharply, inflation cools, but March numbers likely to show hit from lockdown



As the coronavirus pandemic continues to disrupt the economy, companies across the board are facing the heat. The CEO of a large consumer products company says though some of his production lines are operating – producing sanitisers, soaps – nearly 70 per cent of the business has stopped completely. “It’s a question of survival more than future investment. We are partially shielded because of the nature of our business, but activities in infrastructure, construction, transportation and entertainment sectors have come to a halt. Supply-side issues are affecting businesses that are still op-

erating. We don’t expect things to normalise in the next three-six months,” he says.

Most of his views are echoed in the latest Business Confidence Index (BCI) survey for the January-March period. A total of 67 per cent respondents don’t expect the recent Reserve Bank of India (RBI) rate cut to re-start the private investment cycle, while another 89 per cent believe it will take more than three months for the crisis to subside.

This, and other concerns pertaining to economic growth and uncertainty around how the situation is going to pan out, has taken a toll on the latest BCI, which – on a scale of 100 – was at

46.3, compared with 48.6 in the previous quarter and 49.1 in the quarter before that. Market research agency *Cfore* quizzed 500 CEOs and chief financial officers in 12 cities for the survey. This is the second-lowest level for BCI since the survey started in January-March 2011. The index had recorded its lowest level – 45.1 – in July-September 2017.

“There are two types of crises – health and economic. In both cases, we are in the initial phases. People are expecting worse to unfold from now on in terms of economic impact,” says D.K. Srivastava, Chief Policy Advisor at EY.

The survey results have been gloomy for the past several quarters, but the lat-

est BCI reading is particularly worrying with negative outlook for nearly all parameters. Most respondents predict worsening of situation in areas such as economic prospects, overall economic situation, overall business situation, financial situation, working capital, cost of external finance, production level, order book, supply side, inventory of raw material/finished goods, utilisation of production capacity, sales, selling price, profits and stock price.

For instance, 47 per cent respondents expect the overall economic situation to worsen in the April-June quarter as compared to 31 per cent predicting so in the previous survey. Similarly, 41 per cent believe their financial situation will become worse in the June quarter as against 27 per cent in the previous survey. About 76 per cent believe GDP growth will shrink in 2020/21. Just 6 per cent hope it will grow. Goldman Sachs has pegged the 2020/21 growth at 1.6 per cent, and Fitch Ratings at 2 per cent. ADB has estimated 4 per cent growth. “The impact of coronavirus in FY20 was limited as it disrupted just the last three weeks of the year. However, I expect real GDP growth to fall to about 2 per cent in 2020/21,” says U.R. Bhat, Director, Dalton Capital.

“Domestic GDP growth will shrink but remain in the positive zone. The global economy will register negative growth. The way GDP progresses will depend a lot on economic policies of the government,” says EY’s Srivastava.

A total of 71 per cent respondents believe the government is doing enough to manage the coronavirus crisis. Yet, 59 per cent don’t expect to make fresh investments in the next three months despite the recent interest rate cuts. On March 27, the RBI had slashed the repo rate by 75 basis points to 4.40 per cent.

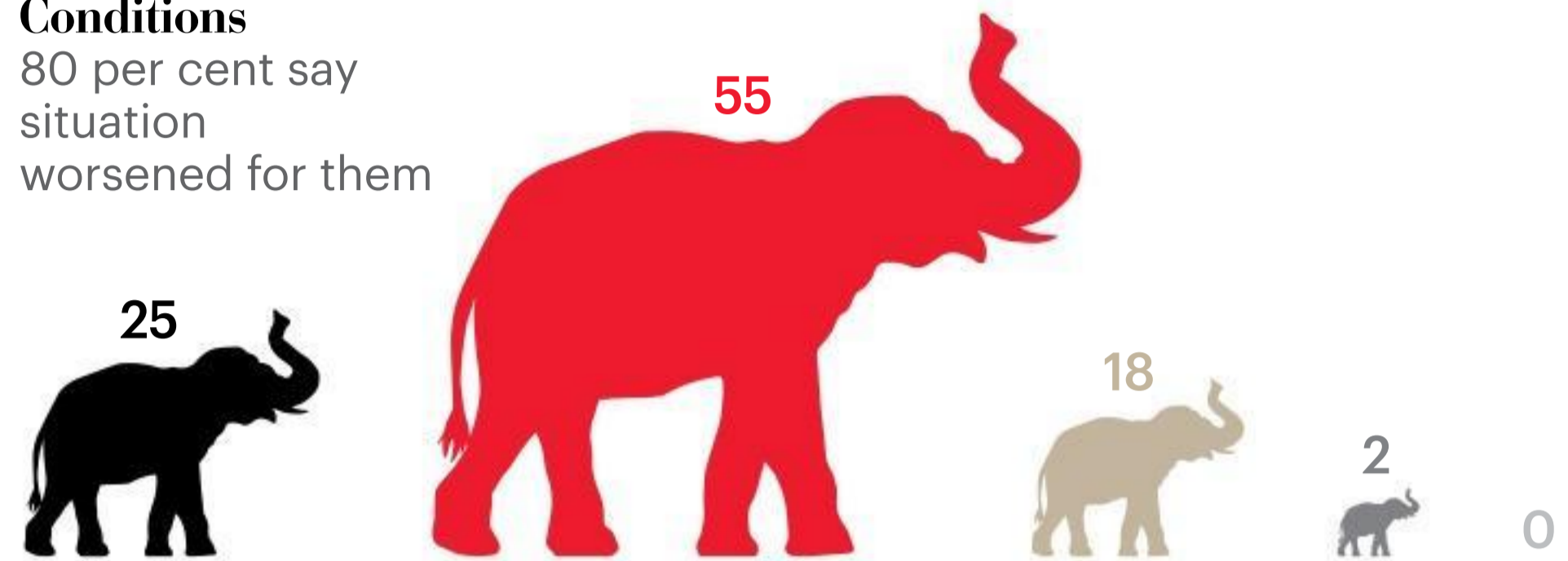
“The government is taking a cautious approach which is still better than what other countries are doing. It will be difficult for them to cope with the economic crisis. The government needs an exit strategy and a stimulus package covering all sectors. But then there are several fiscal constraints given that tax collections were weak in the last financial year,” says a leading economist.

The Crisis Quarter

Most respondents expressed dismay over business conditions in the January-March period

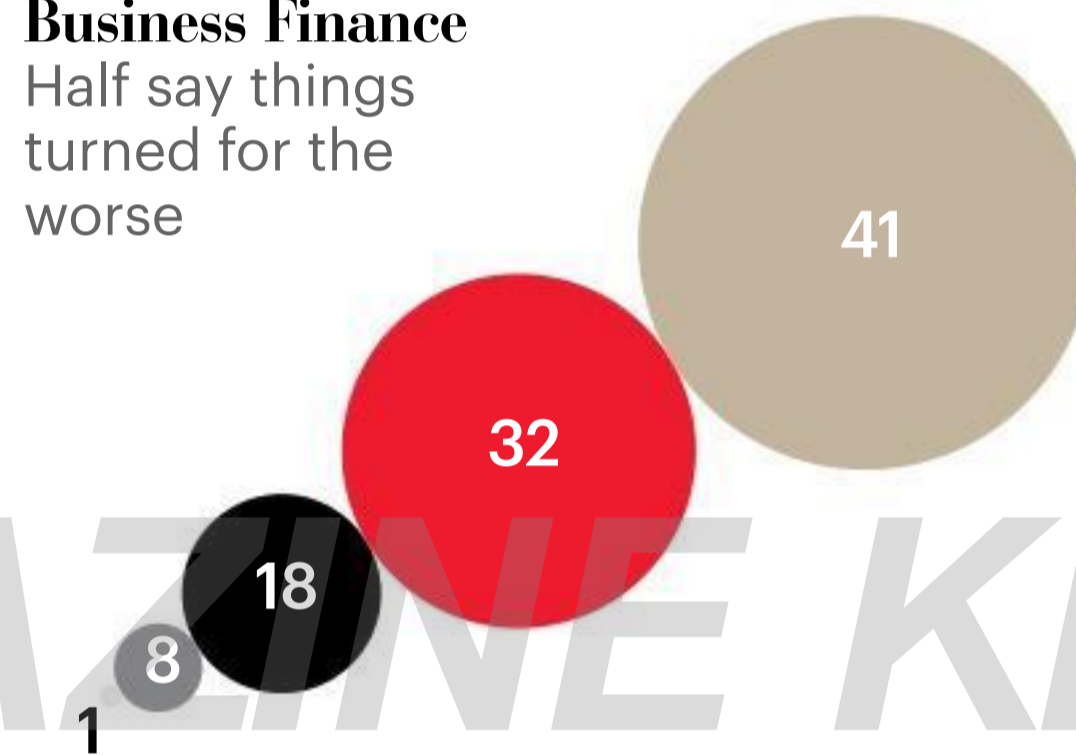
Overall Economic Conditions

80 per cent say situation worsened for them



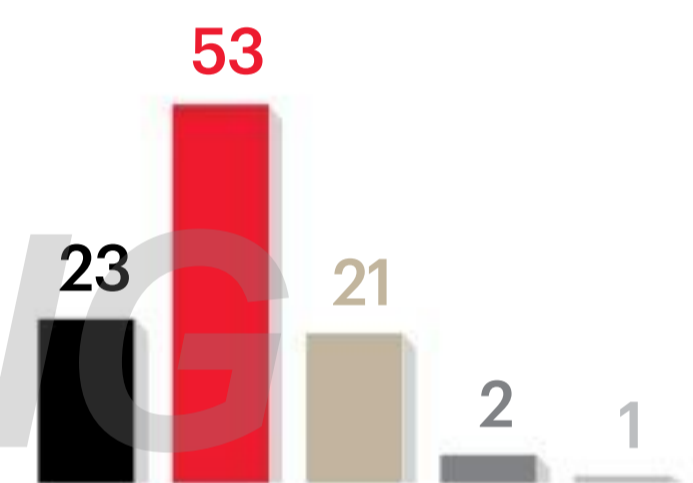
Availability of Business Finance

Half say things turned for the worse



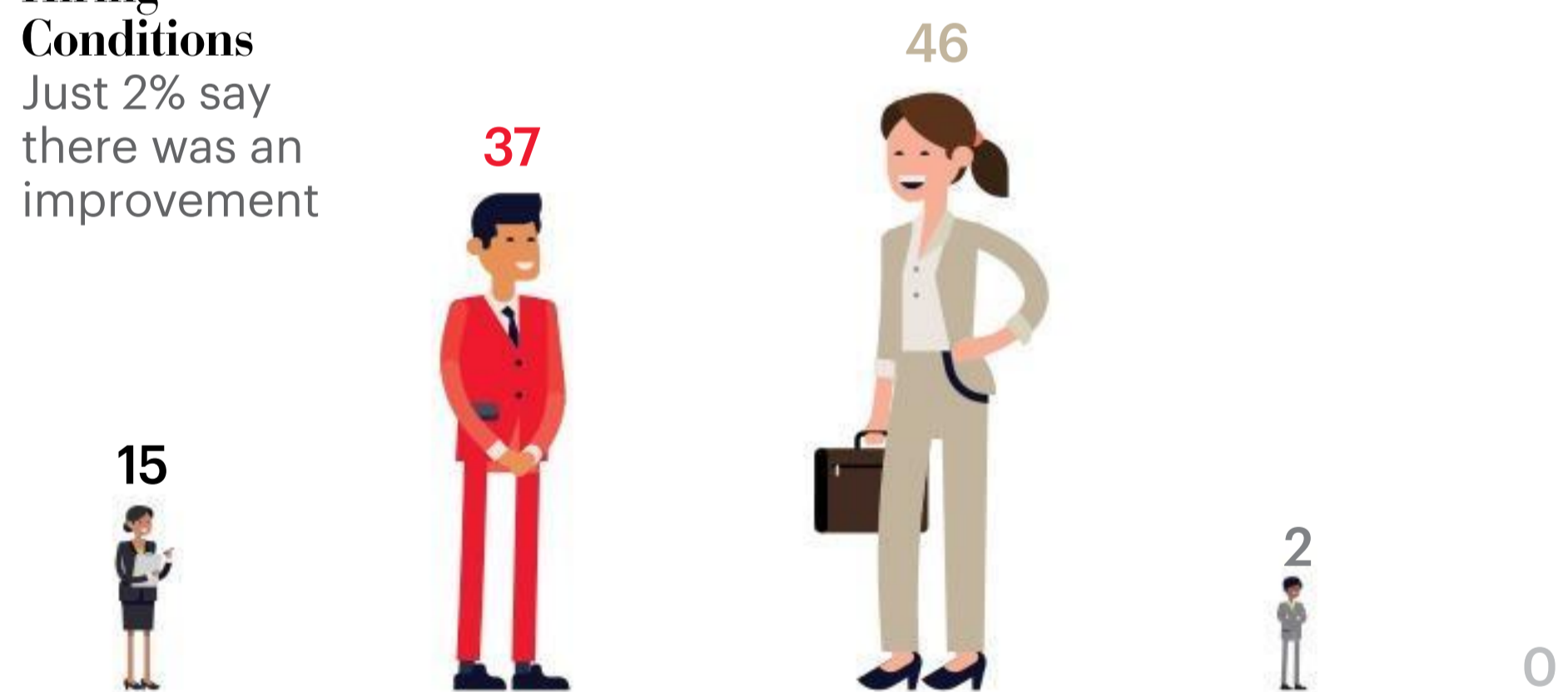
Demand Conditions

A high 76% say things did not go well for them



Hiring Conditions

Just 2% say there was an improvement



Profit Margins

73% say they saw a dip in margins

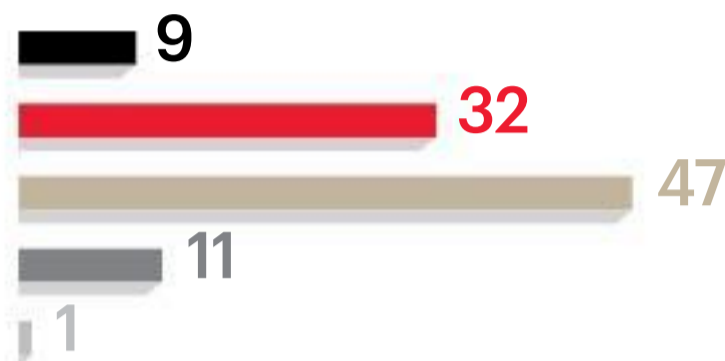


● Substantially worse ● Moderately worse ● Same/no change
 ● Moderately better ● Substantially better All figures in per cent

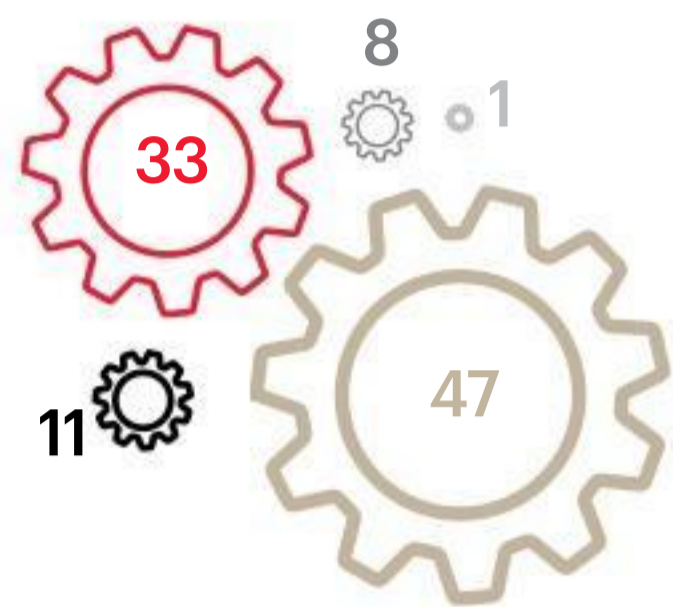
Little Respite

Most expect a very slow improvement in the April-June quarter

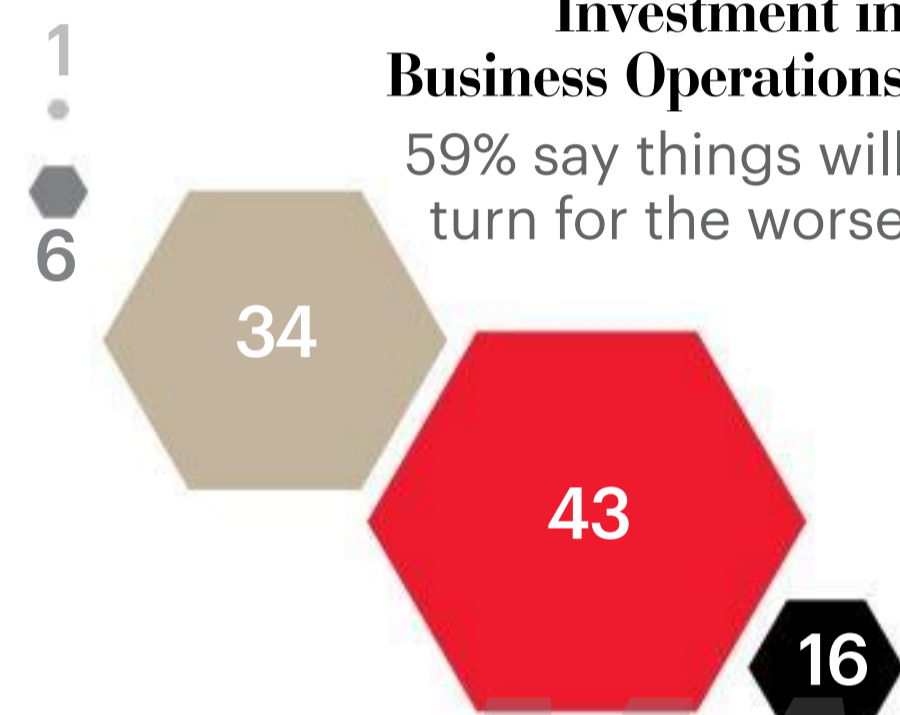
Economic Prospects
41% expect things to worsen



Production Level
47% expect no change



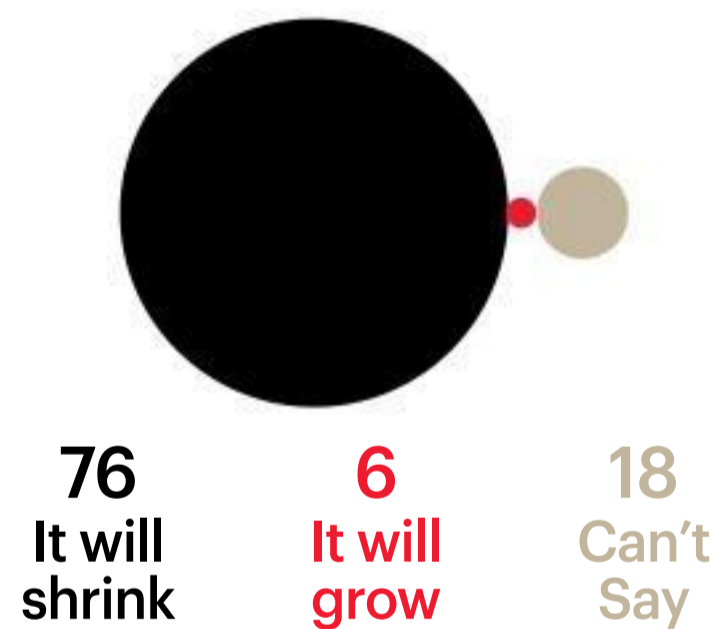
Investment in Business Operations
59% say things will turn for the worse



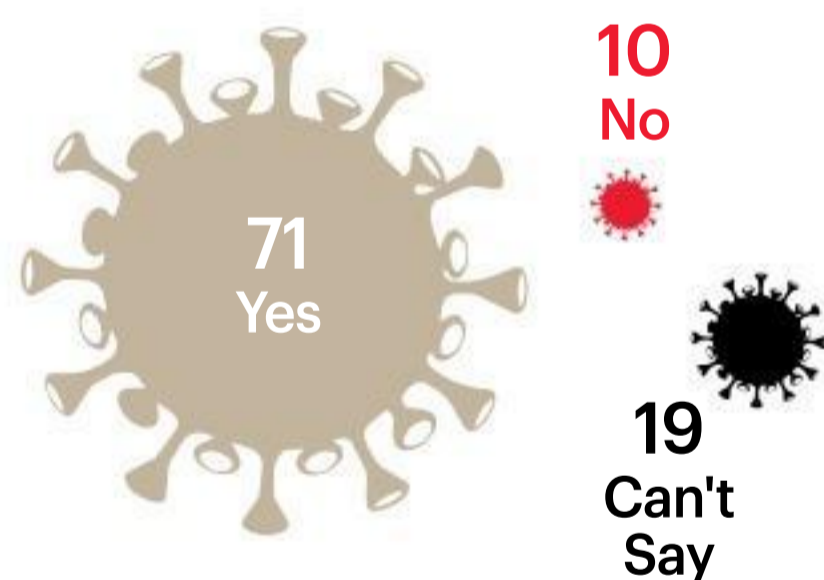
Sales Pickup
46% expect dip in sales



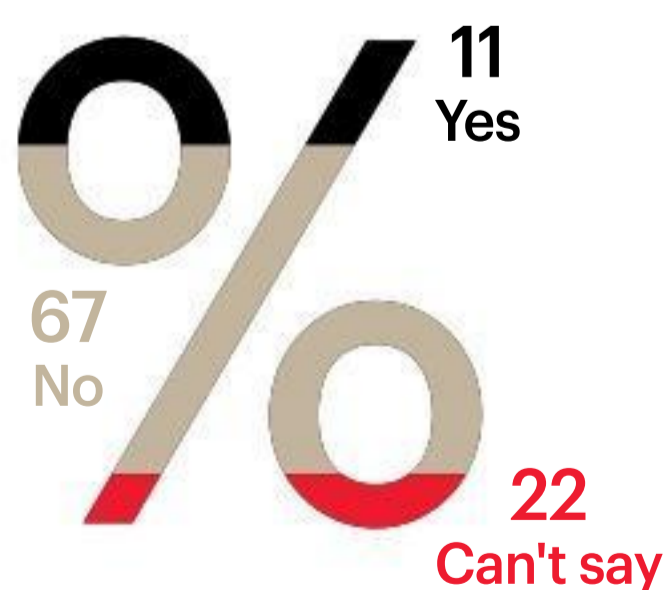
What will be the state of India's GDP in full fiscal 2020/21?



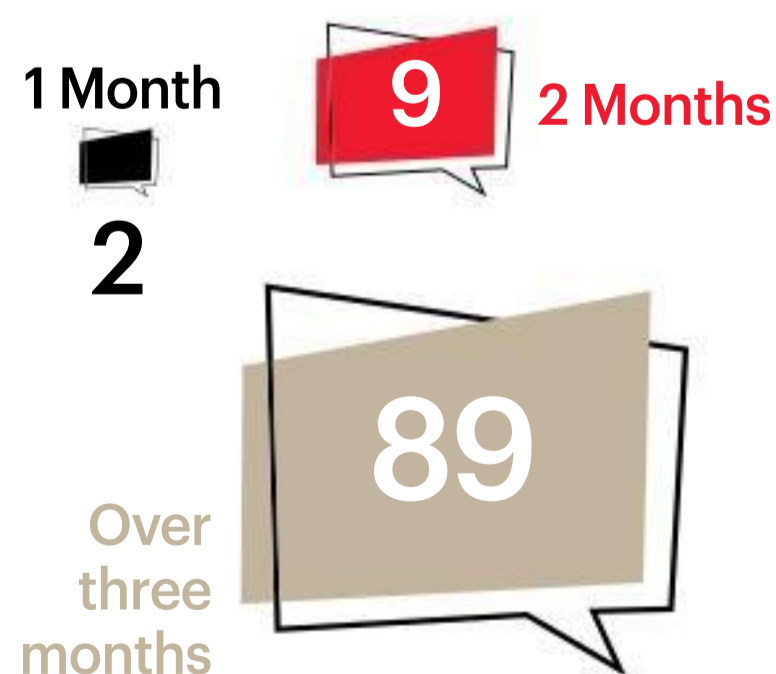
Is the government doing enough to manage the coronavirus crisis?



Do you think RBI's rate cut would restart private investment cycle?



When do you expect the current crisis to subside?



● Substantially worse ● Moderately worse ● Same/no change
● Moderately better ● Substantially better All figures in per cent

Experts say fresh investment depends on capacity utilisation, demand, availability of raw material and land. Capacity utilisation across industries slipped to 68.6 in third quarter of 2019/20, as per RBI data. It could have further gone down to 60 per cent. "Private investment will take off only if India Inc is comfortable with the demand-supply equation. There are a slew of factors that have a larger impact on private investments than a cut in interest rates," says Dalton Capital's Bhat.

In the current environment, supply side has been a big challenge for the government as it has rolled out measures to ensure that essential goods are available to everyone. There are reports that the 21-day lockdown has blocked the supply chain at various levels. That's not all. In days to come, the bigger test for the government is to manage the rabi crop. "All related activities such as transportation, storage and purchases as per MSP rates need to take place in the near-normal way," says Srivastava.

The survey respondents are hoping for a marginal improvement in cost of raw material. For example, 25 per cent said it will fall in three months to June as against 20 per cent saying so in the previous survey. Nearly 34 per cent drop in Brent crude prices over the past one month has led to a fall in input costs for different sectors. But this is unlikely to cause major gains as demand has slowed considerably.

As a supplement to the survey, we do an assessment of other economic indicators. These include export-import, index of industrial production (IIP) and consumer price inflation (CPI). The numbers are bleak. While IIP grew 4.5 per cent in February, CPI was 6.6 per cent in the same month, much above the RBI's comfort zone. Bleaker numbers are expected in the weeks ahead.

With key economic indicators taking a beating, and impact of this war-like scenario beginning to unfold, the next few months are set to be the most challenging for business leaders – something that they may not have experienced before. **BT**

@manukaushik



COVER STORY

ECONOMY

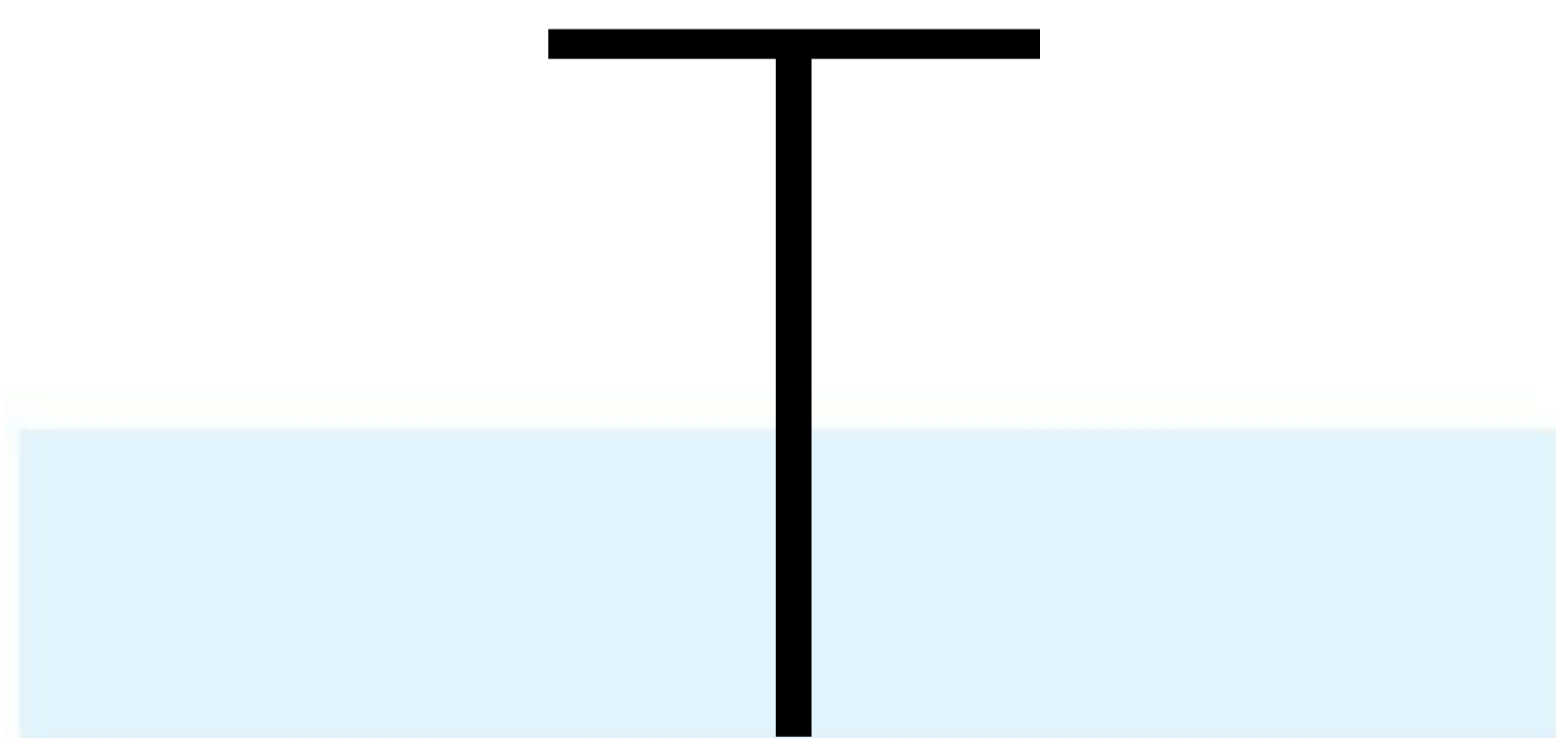
JUMPSTARTING POST-CORONAVIRUS ECONOMY

**P. Chidambaram, Meghnad Desai, Bimal Jalan, D. Subbarao,
and Junaid Ahmad on how to get the GDP going**

TEAM BT
ILLUSTRATION BY RAJ VERMA

• • • •

MAGAZINE KING



he only way to control the raging global coronavirus pandemic, the biggest health crisis of our times, is to switch off the global economic engines through a complete lockdown and social isolation. The resultant economic pandemonium, though, is the last thing that governments want – or can afford. The dilem-

ma leaves nations performing a balancing act, of finding answers to a very complex problem that needs health, social and economic solutions, all at the same time.

Business Today brings together five renowned names in macroeconomics, public administration and public finance for their views on how to re-start India's post-lockdown economy when restrictions are lifted, even as the country continues to fight the disease outbreak. Here are their prescriptions.

“GIVE CREDIT, WORKING CAPITAL, EXPORT SOPS, FISCAL INCENTIVES. NOT SEQUENTIALLY, BUT SIMULTANEOUSLY”

The minimum amount required immediately is ₹5-6 lakh crore. We may need more

P. Chidambaram, former finance minister

What can be done to restart the economy? What should be the first steps post-lockdown?

The first step will be to ensure that the poor are adequately remonetised, i.e., they have enough cash in their hands to sustain themselves until they resume their jobs or self-employment. Secondly, provide enough support, including loan waivers, to micro and small enterprises to resume production and supply. Thirdly, address the needs of medium and large enterprises (organised sector) in terms of credit, working capital, export incentives, fiscal incentives, etc., to quickly ramp up production and supply. These steps have to be taken, not sequentially, but simultaneously.

What should be the ideal stimulus? How do we raise resources? Is re-allocation of ministry resources an option?

The minimum amount of money that will be required immediately is ₹5-6 lakh crore or about \$80 billion. This is about 3 per cent of nominal GDP. We may need more. Resources are available within the country — through re-allocation, ruthlessly cutting wasteful and vanity expenditure, higher borrowing, and monetisation of part of the deficit. The IMF has given \$1 billion.

How severe will be the lockdown's impact on India's GDP? Are we staring at a recession?

It is too early to conclude whether there will be a recession. (Technically, a recession is when the GDP records two successive quarters of negative growth.) The growth in Q1 (April-June) will be very low, maybe even close to zero. Q2 growth will depend on when the lockdown is lifted and when economic activity resumes and gains momentum. It will also depend upon the fiscal steps the government will take — so far, there are none. The worst case scenario is zero growth in the first half (Q1+Q2) of FY21. The best case scenario will be that we see green shoots from July on-

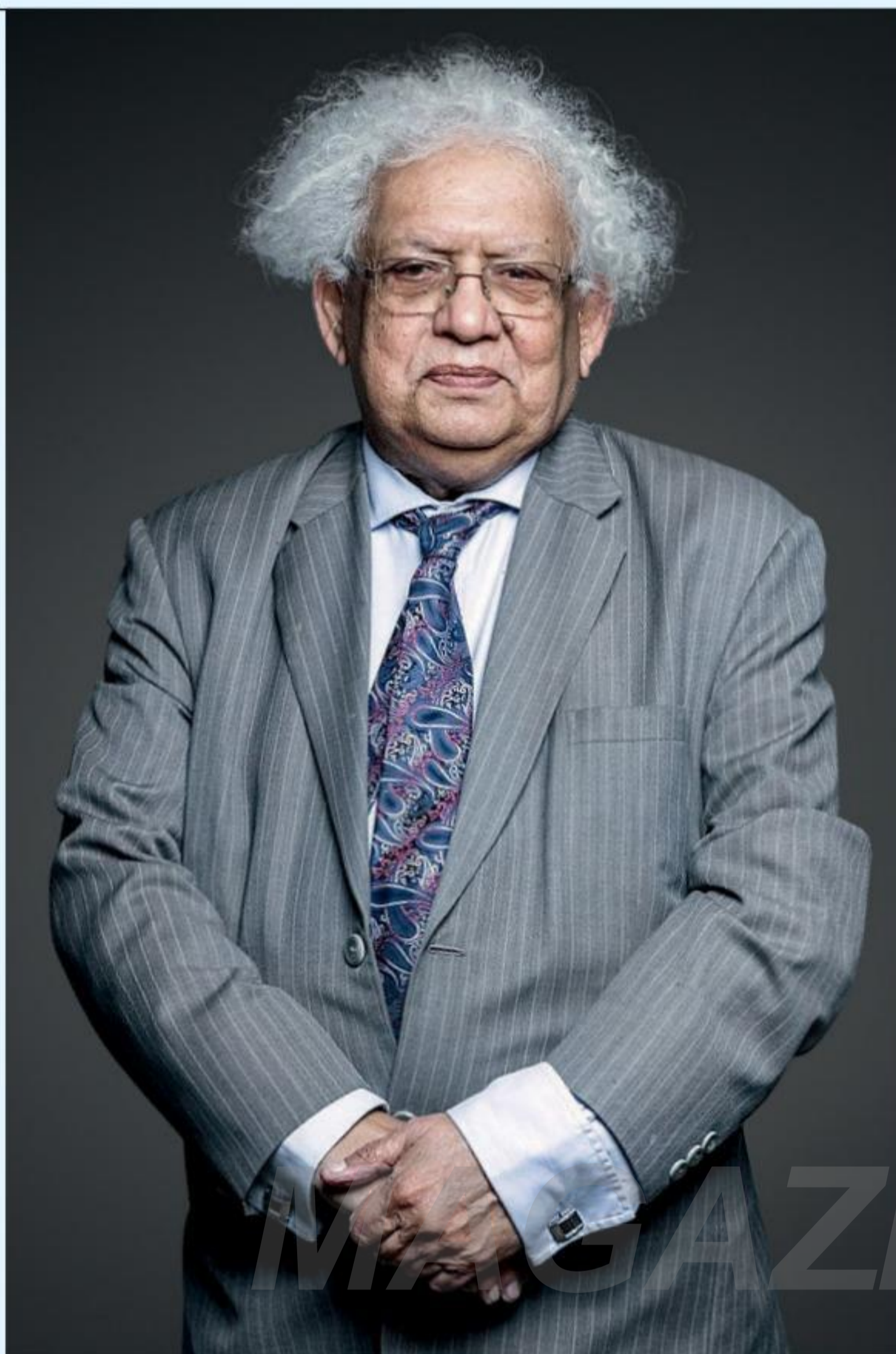


PHOTOGRAPH BY BANDEEP SINGH

wards. In either scenario, FY21 will record one of the lowest growth rates in recent years.

How do you see the government's and the RBI's responses so far? Are they enough to manage the health and the economic crises?

The RBI can only play a supporting role and, in my view, the measures taken by it are satisfactory. As far as the government is concerned, the record is mixed. On the health front, after some false starts, they seem to be getting their act together in containment and testing. On the economic front, they have failed miserably. They have been timid and hesitant. The situation calls for bold and decisive action, especially on (1) livelihood support to the poor and vulnerable; (2) protecting current levels of employment and wages; (3) providing financial support to MSMEs; (4) maintaining supply chains of goods and services, especially essential household goods and services; (5) allowing states to borrow more in order to be able to spend more; and (6) designing a package of measures and incentives to re-start the engines of economic growth. The heavy lifting must be done by the central government but they are, inexplicably, loath to do so.



“A UNIVERSAL INCOME SCHEME FOR ALL”

India's informal sector is large. So income loss is heaviest for the poor

Meghnad Desai, Emeritus Professor of Economics, London School of Economics

The coronavirus is a classic black swan event. It was totally unanticipated. It is global, though perhaps more because the authorities in Wuhan did not immediately try to suppress the spread. Like all governments everywhere, they suppressed the bad news instead and allowed people who had been infected to travel. If anyone still needed proof that the world had globalised, this would be it. Someone meeting a person from Wuhan, either in China or in Singapore, travelled to a ski resort in the Alps and brought it to the UK. No doubt, others he came in contact with within Singapore or on the ski slopes carried it to Italy and Spain.

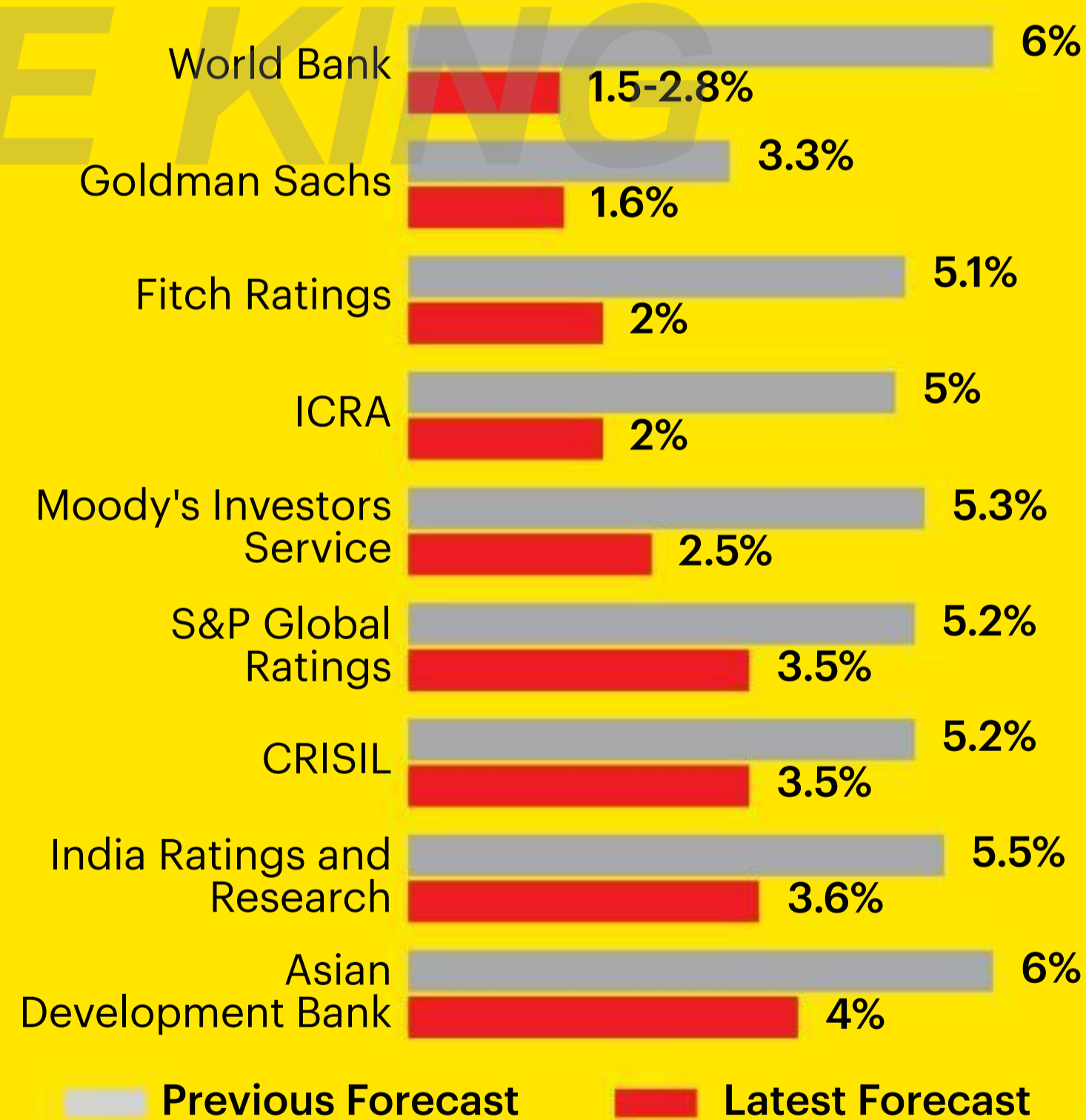
The disease has struck richer countries earlier and harder than poor countries thus far. International travel is

a luxury and relatively rich people from rich as well as poor countries enjoy its pleasures. That has provided the fast global conduit for the disease to spread. The virus may be similar to others, SARS, for example, but scientists are not unanimous so far on its cure or even on strategies for slowing down its spread - mitigation or suppression. But now we have enough observations to know that its incidence takes the form of the well-known Bell shaped curve and 10 or 20 countries that have had the virus for some weeks since early January exhibit the standard pattern of a cumulative version of the Bell curve.

India has been a late arriver on the scene as it got it from travellers, many of them Indians who had got it

GROWTH PANGS

Rating agencies lower India's GDP growth estimates



New estimates of India's GDP growth have fallen drastically, to as low as 1.5 per cent by World Bank

WTO expects global trade to fall between 13 per cent and 32 per cent in 2020

UNESCAP says the pandemic may make it difficult for nations to take full advantage of low crude oil prices

400 million workers in informal economy at risk of falling deeper into poverty, says ILO

from Americans or Britishers. By mid-March, it had been clear to European countries that the technique of social distancing (lockdown) is effective if it can be enforced. Though India's death count is low thus far, there is no reason to be complacent. Like many European countries India can be expected to have deaths in five figures. The US will score higher still - in six figures.

That at least is the safest assumption on which to proceed. India has launched a lockdown anyway. There is some complacency in India about the low figures for death but it is early days yet. The pandemic will not be gone this side of July at the earliest.

The difference the virus makes is in the economic impact. Not so much in the macro impact. GDP will go down by 25-30 per cent everywhere. But in India, the size of the informal sector is large and the ratio of women's participation in the labour market is also low compared to other similar countries in Asia. This means that income loss is heaviest for the poor. As many of the informal sector workers are migrants, their first reaction has been to move back to their native villages. They find they are not welcome as they come from rich traveller infested areas and were in any case surplus to requirements, which is why they left in the first place.

All countries have thrown the principles of fiscal rectitude and monetary restraint to the winds and focused rightly on saving lives. Since physical proximity has to be reduced, economic activity - consumption, production, trade, distribution - has suffered massively. Even labour in formal and MSME sectors has been laid off. Higher up the scale, corporations relying on financial markets for funding have suffered from share price collapse. They need liquidity at low cost.

The government has already begun to act on these fronts. The ₹500 was a great idea (credited to Jan Dhan account holders for three months). A bolder step would be to extend it for six months for all women. My favourite recipe is a Universal Income scheme for all voters at ₹1,000 per month for six months. It will be easy to implement. The better off can give up the claim like they did for the gas subsidy but it should not matter. It is a universal catastrophe. Let all be covered.

“INCREASE FISCAL DEFICIT BY TWO PERCENTAGE POINTS; TRANSFER MONEY INTO HANDS OF PEOPLE”

Take measures to boost demand. If unorganised or organised sector is not working, it has a recessionary impact

Bimal Jalan, former RBI governor



How do we generate demand in the economy?

We should be willing to increase fiscal deficit by 1.5-2 percentage points. The government has to pump money into the system. To create demand, it has to transfer some money (into the hands of people). The RBI also has to take steps to reduce borrowing rates. These are good measures, but it does not mean that the growth rate won't decline. We will, however, be able to ensure that we don't get into a recessionary condition.

If the government is ready to increase deficit, where should this money be spent?



FINANCE

Bank credit growth has plunged to a low of 6.1 per cent, less than half of last year and the lowest in almost 50 years. Heightened risk also weakens the only engine that was growing – retail credit

RBI has created liquidity window for banks with ₹3.74 lakh crore package, but weak NBFCs, MFI, HFCs will find it difficult to get funding

Banks are refusing to offer moratorium on NBFC term loans

In coming months, falling GDP and growing credit could mean higher NPAs. Recoveries are already slow under IBC due to lack of demand



AUTOMOBILE

Simulations suggest auto sales will decline 20-24 per cent if GDP growth slows to under 1 per cent in FY21

This will push back the industry by a decade with volumes of 2.15 million units, last seen in FY11

Commercial vehicle and two-wheelers to fare even worse with 32-35 per cent and 27-30 per cent decline, respectively

First time ever, industry sales would decline for two consecutive fiscals



PHARMA AND HEALTHCARE

Hospitals expect sharp decline in capacity utilisation, by as much as 40-45 per cent, while fixed costs stay unchanged

Industry grew 9.8 per cent in FY20, but coming quarter could see a correction

Growth partly led by spurt in demand for chronic ailment medications like diabetes and hypertension which people stocked for the lockdown. Could see correction in next quarter

Faces bottlenecks across the board - from supply of raw material to logistics constraints

The usual things, wherever the government is spending, such as public services. It needs to increase direct expenditure in public sector units, and other agencies. So whatever is in the government's domain, it should do. What is in corporate sector's domain, it should do that. Corporate sector spending can be boosted by reducing interest rates.

But (I am again saying) that does not mean we will be able to meet the entire impact of coronavirus on growth rate. The situation is difficult all over the world.

Won't sovereign ratings suffer due to higher fiscal deficit?

No; we are also reducing interest rates, and if demand is not high, inflation won't increase that much. We are in a situation where we should take some measures to boost demand. For example, if the unorganised or organised sector is not working, and they have no sales, and salaries have been cut...all these have a recessionary impact.

Rating agencies will understand India's compulsion as the same is affecting all countries.

Some states have been announcing packages. Will this lessen the fiscal burden of the Centre?

States' and Centre's roles are not overlapping. States have a different role to play. They have their own administration for which they have to pay, they have their own schemes. The Centre has its own areas and schemes (where it should spend). There is no conflict between the two.

“GOVT SHOULD TARGET JOB-INTENSIVE AND STRESSED SECTORS...”

...such as construction and real estate and sectors that are most stressed like airlines, power, shipping and transport

D. Subbarao, Former RBI Governor

How do we restart the economy?

I gather about two-thirds of the manufacturing sector has closed during the lockdown. This will have to be restarted consistent with the phased lifting of the lockdown. Restarting has to happen not by sectors but by supply chains. Both large and small firms will

PHOTOGRAPH BY NISHIKANT GAMRE



need cash to restart. One way to do that is for the government and PSUs to pay all dues they owe to private corporates. The targeted LTRO (long-term repo operations) of RBI (whereby banks get access to long term money from the RBI for buying corporate bonds) is another way to put cash in hands of corporates.

What should be the first steps post the lockdown?

The lockdown would have hit both supply and demand. The measures mentioned earlier address the supply side. There has to be stimulus on the demand side so that supply and demand normalise in tandem. One way is to expand payments under PM's Kisan Yojana, and expand MNREGA.

Should India give sector-specific stimulus (government seems averse to this) or across the board as it has been doing?

The government's resources are limited. To get maximum bang for the buck, the government should target sectors that are job intensive like construction and real estate and sectors that are most stressed like airlines, power, shipping and transport. If done transparently, the political backlash of such a targeted approach can be minimised.

Does the government have the resources for these big expenditure commitments?

That is a huge challenge. Our fiscal (condition) was already overstretched. Add to that just the loss of revenue because of the shutdown and the combined fiscal deficit of the Centre and states will exceed 10 per cent of GDP. The expenditures we talked about will be on top of this. There is a view that the government must spend whatever is necessary to fight the pandemic regardless of the adverse economic impact. As much as I am sensitive to minimising the human cost of the pandemic, we must recognise that millions of people in the informal sector will be forced to the margins of subsistence in an extended lockdown. There is an equally compelling humanitarian dimension on both sides. Besides, a blue sky approach to spending



Print Money, Issue G-Secs

Arvind Subramanian,
former Chief Economic Adviser

Conservatively, there will be an additional expenditure – Centre and states combined – of close to 5 per cent of GDP. Assuming India's nominal GDP will be roughly ₹200 lakh crore (current prices), additional expenditures will be ₹10 lakh crore (\$135 billion). In principle, there are

five ways of financing additional expenditure over the next 12 months or so. These are reduction in other expenditure (₹1-1.5 lakh crore), foreign borrowing from official sources and NRIs (₹1-1.5 lakh crore), public financing by issuing G-Secs including to banks and LIC (₹5 lakh crore), monetary financing or printing money (₹1-1.5 lakh crore) and mobilising additional resources via raising taxes and cutting subsidies (₹1-1.5 lakh crore).

To reassure bankers and the financial sector at this stage, the government should give them liquidity. This is also an opportunity to work on a better taxation system.

Edited excerpts from a co-authored paper

Fiscal Deficit Will Expand But it is a Cost We Have to Take

Kaushik Basu,
former Chief Economic Adviser



Social distancing/lockdowns are a must but we also have to slowly allow trade, exchange and markets to function. Otherwise there can be a breakdown in food and essential supply, and sharp currency depreciation. So, three steps for gradual opening.

1. After the initial lockdown, restart limited plane/train services, with new rules such as planes have to leave alternate seats empty, passengers have to come two hours early and undergo a medical check. All this will get the economy moving.
2. Along with cash supplements, the poor will need direct support with food, healthcare and basic needs. If shortages appear, prices will rise and the poor, even with cash handouts, will get outcompeted. Direct support is essential, at least in the short term.
3. Give financial support to small businesses to encourage them not to lay off workers. This will expand the fiscal deficit but that is a short-run cost we have to take. We can begin to correct the deficit next year.

Edited excerpts from social media posts

will take a heavy toll down the road by way of inflation and exchange rate volatility. In the interest of efficiency and transparency, the government must pre-set a fiscal target, maybe 2 per cent or 3 per cent of GDP, and work within that. The target can be revised later if necessary.

How do we save SMEs?

SMEs operate on very thin margins. They are the worst hit. Mandate large corporates to pay up their dues to SMEs from what they receive from the government. Another option is a dedicated line of credit from the RBI to banks to lend to SMEs. Since banks might be wary of the



Need new Investment Grade Bond Issuances

Raghuram Rajan,
former RBI governor

We should restart certain activities in certain low-infection regions with adequate precautions.

Since manufacturers need to activate their entire supply chain to produce, they should be encouraged to plan this. The states and the Centre have to come together to figure out quickly some combination of public and NGO provision (food, healthcare, shelter), private participation (voluntary moratoria on debt payments and a community enforced ban on evictions for next few months), and direct benefit transfers.

SIDBI (Small industrial Development Bank of India) can make the terms of credit guarantee of bank loans to SMEs more favourable. Banks, insurers and bond mutual funds should be encouraged to buy new investment grade bond issuances, and their way can be eased by the RBI agreeing to lend against their high quality bond portfolios through repo transactions.

Edited excerpts from social media posts

credit risk, the government will have to guarantee these loans. A similar government guarantee scheme should be channelled through MUDRA to support small unorganised enterprises.

Loan restructuring will be necessary in many cases. Banks may be diffident about restructuring even cases that can get back on their feet. To neutralise that, the government may have to come up with a TARP-like programme to give capital support to firms. (The Troubled Asset Relief Program was created and run by the US Treasury in the wake of the 2008 global financial crisis.) This programme can also be used for large firms, especially in key sectors like travel, hospitality and logistics, to enable them to raise domestic and foreign equity.

How is the coronavirus financial crisis (CFC) different from the global financial crisis (GFC) of 2008-09?

First, the GFC originated in the financial sector and then the contagion transmitted to the real economy. In the CFC, the causation is in the opposite direction. The second difference is that the level of uncertainty is much deeper in CFC because of the number of known unknowns about the coronavirus. Third is in available solutions. In the GFC, solutions to the real economy and in the financial sector worked in tandem. In the CFC, there is a trade-off – the stronger the measures to contain the pandemic, the bigger is the hit to the economy.



“INDIA HAS SPACE TO INVEST 3-5 PER CENT OF GDP”

Health, social protection and economic stabilisation measures critical

Junaid Ahmad, Country Director, India, World Bank

In 2008, you had a financial shock. The current one is a supply shock. You have to deal with where the supply problem emerges, which is the health sector. When you engage in social distancing, you have to slow down the economy. When you do that, you need to create a bridge through which you provide social protection funds to the vulnerable, and to the small and medium enterprises. Once India begins to move away from the lockdown, economic stimulus should come. Interventions like lines of credit to small and medium enterprises, credit enhancement for businesses, etc. will stabilise the economy.

We're in uncharted territory. The key is to respond to what's happening on the ground. One of the lessons from the 2008 crisis was that as firms shut down, and people were laid off, it took seven to 10 years for people to come back into the labour force. The economy can't afford that. That's why you have to work on health as well as bridging support to stabilise households as well as pockets of the economy. The government has already moved ahead. The RBI's lines of credit, stabilisation, regulatory forbearance are all enabling stability.

Paul Krugman, the Nobel Prize winner economist, said he's very worried that there's going to be a significant downward trend globally. We are entering into a world of slow growth, and in many places, negative growth. All these interventions are precisely to ensure that this downward trend is arrested, before it can pick it up. It's hard to predict when we're going to see an end to the health crisis.

The 'state' is back in the picture in a big way. The US is putting in 10 per cent of GDP, and Europe around 5 per cent. India's debt is not huge and it is in local currency and long term. So, India may have the space to invest 3-5 per cent of GDP into health, social protection and economic stabilisation measures. **BT**

*(AS TOLD TO JOE C. MATHEW,
DIPAK MONDAL and E. KUMAR SHARMA)*

COVER STORY

GOVERNMENT



FALLING SHORT

Government measures to tackle the current situation are not enough to revive the economy

BY DIPAK MONDAL

ILLUSTRATION BY RAJ VERMA

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he Central government's response to the economic fallout of coronavirus has been a mix of a few procedural and compliance relaxations, liquidity injection in the banking sector through the Reserve Bank of India (RBI) and a small package aimed at the poor and underprivileged. In short, it has been tepid and cautious.

With several agencies predicting doom and gloom for the economy — the latest is World Bank forecast of 1.5-2.8 per cent FY21 real GDP growth versus 6 per cent previously — the government's response to the situation has baffled many. The size of the package for the poor and underprivileged — ₹1.7 lakh crore — is less than 1 per cent of GDP, even when a large number of economists and experts are asking for a package that's 4-5 per cent of GDP or ₹10 lakh crore. Even a large portion of the ₹1.7 lakh crore package has been mostly budgeted for earlier; the government is incurring an incremental cost of only ₹70,000-80,000 crore. And then there are bits and pieces measures such as relaxation in tax and other regulatory compliances and

transfer of some pending funds to states, local bodies, etc.

Of course, the RBI has announced a series of measures like a 75 basis points repo rate cut and a 100 basis points cut in CRR, releasing ₹3.74 lakh crore into the system. Besides, it has eased norms for working capital financing and rescheduling of term and working capital loans. The benefits are yet to be seen.

RBI Liquidity Push: Failing the Test

When the RBI announced a three-month moratorium on loan repayments, there was hope among individuals and small and medium enterprises (SMEs) that this will ease their pain. Soon, individual borrowers realised that if they opt for the moratorium, they will end up paying additional interest, and might have to pay even the deferred EMIs in one go. Not a deal they were looking for at a time when jobs are at stake and salary cuts are the norm.

The MSME sector, one of the worst affected by the lockdown, is also not going to benefit from the RBI's liquidity injection and loan rescheduling measures. Anil Bhardwaj, Secretary General, Federation of Indian Micro and Small & Medium Enterprises (FISME), says there have been no announcements to benefit the MSME sector. "MSME sectors around the world usually have cash in hand for 15 days. All their cash is in circulation. In such a situation, the additional interest cost due to moratorium could be a challenge," he says. He is referring to the coronavirus emergency credit line that State Bank of India had extended to MSMEs just before the lockdown. Under this, the bank was offering 10 per cent additional fund-based working capital. The scheme document said no processing fees, but when the document requirements were studied properly, the businesses realised that the overall cost for availing the facility was ₹75,000, an exorbitant sum for an MSME. On the government's promise to contribute both employee (with basic salary of up to ₹15,000) as well as employer PF contribution for organisations with 100 or less employees for three months, Bhardwaj says only a handful of MSMEs will be eligible for this. What has worsened the situation for MSMEs is that some states have asked them to pay salaries by 30th of the month. This is seven days prior to the usual salary day, says Bhardwaj.

But what about the RBI pumping liquidity in the system and cutting the repo rate by 75 basis points? The move, hailed earlier, has not reflected in bank lending rates. The RBI governor recently said that since January, he has cut the repo rate by 135 basis points, of which only 70 basis points have been passed on to customers. Ratings agency CARE says RBI measures should have led to a decline in rates as there is excess liquidity but this has not happened due to expected heavy government borrowings because of the crisis. This means businesses, especially those with poor financial health, will not get cheaper loans. The Confederation of Indian Industries (CII) estimates that the economy will need 14-15 per cent credit expansion.

Chandrajit Banerjee, Director General of CII, says instead of giving direct subsidies to industry, the government should support it through the banking sector by allowing five-six times leverage. He says the support should include working capital enhancement and funding for payment of wages and special re-construction term loans for MSMEs and stressed sectors.

Compliance Relaxation: Too Little, Too Late

The government has either relaxed compliance requirements or deferred compliance dates. For instance, it has extended the last date for filing income tax returns for (2018-19) from March 31, 2020, to June 30, 2020, and also extended the date for availing benefits under tax amnesty scheme Vivad Se Vishwas without paying additional 10 per cent tax to June 30. The last date for filing GST 3Bs for March, April and May has been deferred to the last week of June.

People in the know say these will ease the compliance burden but not help substantially. “What if my April sales were zero, which will be the case for many? How will an extension of the GST return filing date help me if my GST liability is nil?” asks Pritam Mahure, a Pune-based chartered accountant. He says the government should take other more important steps. He cites the example of credit notes, used to offer discounts on goods after supply, that can be issued till September 30 from the end of the relevant financial year. Mahure says: “A lot of retailers will be stocking goods which they will have to sell at a discount once the lockdown is over. Therefore, the manufacturer will have to issue them credit notes. The government should extend the date for issuing credit notes by a year.”

Archit Gupta, founder and CEO, ClearTax, says while the government has extended the GST 3B filing dates for businesses with turnover of more than ₹5 crore, it is still charging interest (albeit 9 per cent as against the usual rate of 18 per cent) for late filing. Businesses with turnover of up to ₹5 crore won't be charged any interest for late filing.

THE STEPS, AND WHY THEY ARE NOT ENOUGH

MEASURE	IMPACT
Three-month moratorium for borrowers	Additional interest cost a turn-off; lack of clarity on eligibility of NBFCs
Massive liquidity infusion	Heavy borrowings by Centre and states to crowd out corporate borrowers
Sharp rate cuts	Transmission remains a concern; other macro issues may keep interest rates high
Deferment of GST/I-T compliance dates	These are procedural relaxations, need of the hour is sharp tax cuts to boost consumption
Increase in daily wages under MNREGS	MNREGS is a demand-driven employment programme; demand for jobs will be lower under lockdown
Suspension of MP Local Authority Development Scheme	More likely to negatively affect local interventions in times like this
Govt to make EPFO contribution on behalf of employee and employers for three months in entities with 100 or less employees	A handful of MSMEs eligible for the benefit

Rohinton Sidhwa, Partner, International and Corporate Tax, Deloitte Haskins & Sells, says the measures announced so far are more administrative and do not giving taxpayers any benefits as such. However, he says, the decision to release all pending income tax refunds up to ₹5 lakh is a good move, though it's a drop in the ocean. “Refunds of small amounts are routinely done after the filing season. I don't think it is such a big step,” he says. The government has also decided to release all pending income tax refunds up to ₹5 lakh, and all GST and Customs refunds immediately (benefitting around one lakh businesses). The total refunds will be close to ₹18,000 crore.

A lot of compliance relaxations related to the Companies Act have also been announced. For example, no additional fees will be charged for late filing of any document, return or statement from April 1 to September 30. The requirement of holding board meetings within the

prescribed interval has been extended by 60 days till September 30. Ranjana Roy Gawai, a Delhi-based lawyer, says these measures are only ensuring no prosecution for non-compliance.

However, businesses are also demanding GST rate cuts and deferment of income tax payments. The National Real Estate Development Council (NAREDCO) has asked for GST reduction across the board by 50 per cent for three

company was already a special mention account for 60 days. Legal experts say even if there is no clarity on extending the moratorium to NBFCs and companies, the RBI's announcements have clearly shifted the balance in borrowers' favour in this case. They believe that ever since the country went on a lockdown and the government announced relief measures, courts have been lenient on the borrower.

FOR A LOSING CAUSE

1.5-2.8%

World Bank's India FY21 real GDP growth forecast, from 6 per cent earlier, despite government measures to pep up the economy

6.5%

Yield on 10-year bond, up from 6 per cent at the start of March, even after the RBI's push to inject liquidity and cut the repo rate. This means rate transmission is not happening and companies will continue to pay more to raise funds

₹1.7

lakh crore

Economic package; of this, incremental cost to the government is just ₹70,000-80,000 crore

₹10

lakh crore

Package that many are saying India needs to get out of the crisis

MAGAZINE KING

months and 25 per cent for the financial year. "The final GST due should be payable in six quarterly instalments starting October 2020 with no interest. Final income tax of 2019-2020 and advance tax 2020-2021 should be payable starting October 2020 in six quarterly instalments with no interest," says the statement. Niranjana Hiranandani, National President, NAREDCO and President of Assocham, estimates ₹1 lakh crore losses to the real estate sector from the lockdown. He says economic stimulus for all industries should be at least 10 per cent of the country's GDP.

Balance in Favour of Borrowers

The Delhi High Court recently gave an interesting verdict. It refused to classify the account of a real estate developer — Anant Raj Ltd — as a non-performing asset after it failed to make payment to the bank — Yes Bank — due on January 1, 2020, apparently on account of coronavirus outbreak. The company cited the RBI's March 27 announcements allowing financial institutions to give a moratorium of three months on payment of instalments against outstanding loans as on March 1. If looked purely on merit, Anant Raj Ltd did not qualify for the exemption as the dues pertained to January 1 and not March 1. Besides, the moratorium was allowed on standard accounts paying their dues on time till March 1, 2020. The

In another order on March 30, the Bombay High Court restrained IDBI Trusteeship from selling shares of Kishore Biyani-promoted Future Corporate Resources and Rural Fairprice Wholesale Ltd. The judge said the companies needed protection considering the situation arising out of coronavirus pandemic.

Apart from courts and the RBI, even the government has taken steps to ensure that corporate borrowers don't get into undue trouble. It has increased the threshold of default for initiating insolvency proceedings from ₹1 lakh to ₹1 crore. It has also promised that if the situation does not improve, the provisions for initiating insolvency proceedings could be suspended for six months.

Though there has been no new admission of insolvency cases after March 28, it is difficult to say yet if it is the result of the government move. "It is early to say whether the government's move to increase the IBC trigger amount has had its desired effect. Yes, filings are down, but this could be because of courts being closed and general preference to steer clear of IBC in these trying times," says Ashwin Bishnoi, Partner, Corporate and Commercial Practice, Khaitan & Co. Hope the government comes out with more substantial measures soon. **BT**

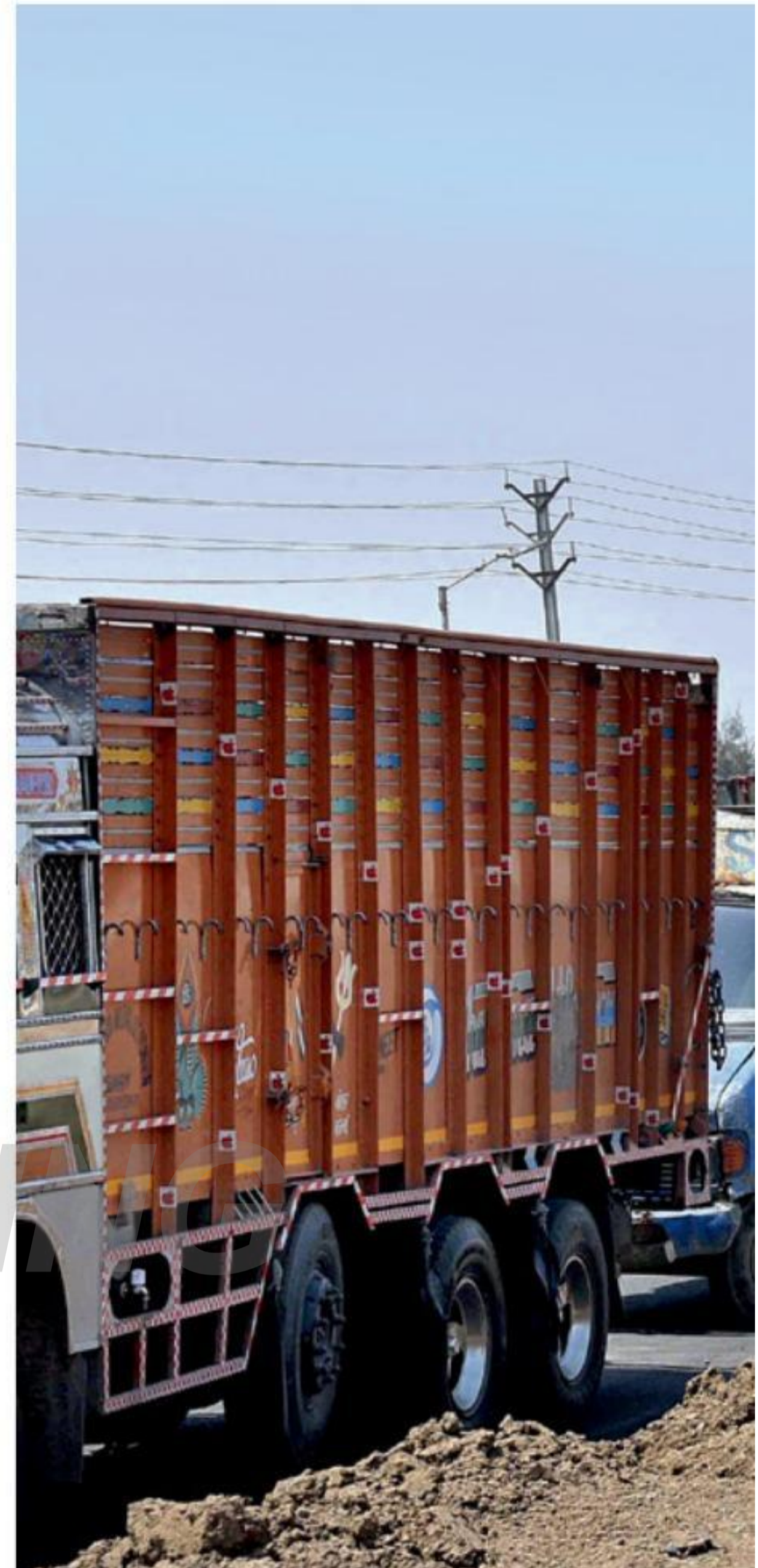
@dipak_journo

THE FARM TO FORK CRISIS

India has surplus agri produce this season. But fractured supply chain has hit harvesting, storing, transporting and selling. **Here is how it is being worked upon**

BY JOE C. MATHEW

• • • •



An

average Indian consumer may not have faced any shortage of essential food items during the 21-day lockdown but a supply chain crisis is brewing in the Indian agriculture sector. Harvested food grains such as wheat have been stuck in fields in several states, and food grain aggregators, processors and branded processed food sellers are all facing problems in sourcing fresh stock.

The fact that even FMCG giant ITC is not immune to the disruption caused across the agricultural value chain, despite various agri-sector activities exempted from the lockdown, is an indicator of the seriousness of the problem. “Given the constraints of limited availability of transport and workforce, the end-to-end flow is still not seamless. Generally, the processing units – wheat mills, for example – run on low stocks in March because the supplies transit from one crop season to the next,” says S. Sivakumar, who heads the agri and IT business of ITC. Making use of the exemption, ITC is now leveraging its institutional capabilities such as the e-Choupal ecosystem, to work directly with farmers to initiate purchases in several locations.

Others are also finding alternate methods to secure supplies. P.C. Mustafa, Co-founder of packaged food com-



ROADBLOCKS AND POSSIBLE SOLUTIONS

PROBLEM:

Harvester and labour scarcity

SOLUTION:

Limited relaxation of lockdown in farm sector

PROBLEM:

Logistics bottlenecks

SOLUTION:

Facilitate truck movement at every level of administration

PROBLEM:

Limited operations in *mandis*

SOLUTION:

Permission to private entities to directly buy produce

PROBLEM:

Payment issues

SOLUTION:

Assistance in availing credit for agriculture equipment, seeds, etc, for kharif sowing

PHOTO COURTESY: ANI

pany iD Fresh Foods, says the company sourced rice from Tamil Nadu and pulses from Madhya Pradesh. “Though restrictions have been eased and movement of trucks has started, I am considering backward integration. This will not only allow better access but will also be more profitable as I won’t need to depend on middle men,” he says.

The other end of the problem is enabling harvesting and purchase of the crops. In fact, as you read this, India’s second major harvest season - the rabi harvest – would be in full flow. Wheat, pulses, soyabean and mustard crops are either standing in the field to be harvested or the bulk of whatever is harvested is waiting to be sold. In Gujarat, all harvesting is over. In Madhya Pradesh and Rajasthan, 70 per cent is done, and the stock is partly stored and partly in the fields. By April 15, major wheat growing states Haryana

and Punjab would have been in the harvest mode. “Normally, 60 per cent of all food grains get sold in 60 days of harvesting. Less than one million tonnes of wheat and pulses have been traded so far, and we have over 100 million tonnes of food grain produce that is expected to arrive by June-end,” an agri-industry expert says.

“No food processing company has an inventory beyond 15 days. We were expecting fresh stuff to arrive. Out of 2,000 mills of *atta*, 1,450 units (more than 60 per cent) are closed due to either labour shortage, or lack of raw materials. This includes around 150 mills of branded players; they also have an inventory crisis,” he adds.

Shortage of labour is delaying harvesting; and shortage of trucks and closed *mandis* is making it impossible to transfer food grains to processing or packing centres. The

end result is that stocks in retail outlets are depleted. Atul Garg, a rice exporter and managing director of Panipat-based GRM Overseas, says their factory is closed right now due to unavailability of packaging material, transportation, handling at port, and other supply chain issues.

In a recent note to investors, Sujan Hajra, chief economist of Anand Rathi Research, says rabi harvesting is behind schedule in many states and that there aren't adequate operational cold storage facilities. These, along with transportation hurdles and a sharp fall in demand, are resulting in wastage and distress sale of perishables such as milk, vegetables, fruit and animal products. "Unless these issues are addressed immediately, they could have a major negative impact on rural India and shortages of essentials across the country in the coming weeks," he states.

Arvind Mediratta, MD and CEO, Metro cash & Carry, says deliveries of commodities, vegetables and fruits was a big issue. "First it was the transportation challenge and then shortage of labour. We have now started sending our own trucks to pick up stocks."

Immediate Solutions

Echoing the sense of panic is Pravesh Sharma, Co-Founder and CEO, Kamatan Farm Tech. "Our external partners, many of which are farmer producer organisations (FPOs), are panicking." He, however, adds that government intervention could help. Sharma wants the government to act fast by suspending all the current market restrictions (provisions under the Agricultural Produce Market Committee Act, or APMC Act). "Let anyone buy from the farmer – whether it's a corporate FPO or cooperatives. Anybody willing to give liquidity to the farmer should be allowed to go and buy," he says. "It's also a good opportunity to test *mandi* reforms; and revive the e-NAM (electronic national agriculture market) system," he says.

Sharma also wants the government to finance the supply chain. "At least 30 per cent of agri trade financing should be targeted at FPOs, cooperatives, self-help groups and rural small and medium enterprises," he says.

The government can also take steps to address the issue of labour supply, says Vijoo Krishnan, joint secretary, All India Kisan Sabha. "Usually, we say there shouldn't be labour displacement. But given the current situation, the minimum distance one is permitted to travel and the number of labourers one can hire can be set. Farmers should be given assistance to fetch harvesters and other machinery. Arrangements for mobile procurement should be in place. Cross-state movement should be facilitated for smooth transport of food grains and perishable items like vegetables and fresh fruits," Krishnan says.

The worries are not confined to logistics. Bulk of the wheat produced in India is procured by the Food Corpo-

MULTI-DIRECTIONAL EFFORTS

Corporate

Large companies are working directly with farmers to initiate purchases in several locations

Some are using their own trucks to transport produce

Some are looking at backward integration to reduce dependence of suppliers



Government

Reducing current market restrictions (provisions under the Agricultural Produce Market Committee Act, or APMC Act) for three months so that all buyers – including bulk buyers, processors and big retailers – can buy directly from farmers

Haryana government has offered a higher MSP for wheat reaching its procurement centres in May (MSP + ₹50 per quintal) and June (MSP + ₹125). Punjab has also announced a similar incentive

Registered warehouses are now deemed *mandis* so that farmers and buyers can avoid having to go to crowded *mandis*. This also facilitates e-NAM transactions

e-NWR (electronic negotiable warehouse receipt) also helps farmers get finance from banks in lieu of the receipts



ration of India at the central government declared price (MSP). This year, the government wants to delay procurement to avoid farmers rushing to harvest and sell and the resultant threat of coronavirus transmission. The Haryana government has offered a higher MSP for wheat reaching its procurement centres in May (MSP + ₹50/quintal) and June (MSP + ₹125). Punjab also has similar incentives.

"The issue is that the Central government is silent on the state government offers. Their stand has been to discourage any price above MSP. On paper, the staggered arrangement looks fine, but not many farmers have proper storage facilities. Also, will the states take the additional burden?" asks Ramandeep Mann, a large-scale farmer from Punjab.



“THE STAGGERED ARRANGEMENT (HIGHER MSP LATER) LOOKS FINE. BUT NOT MANY FARMERS HAVE PROPER STORAGE FACILITIES”

Ramandeep Mann
Large scale farmer in Punjab

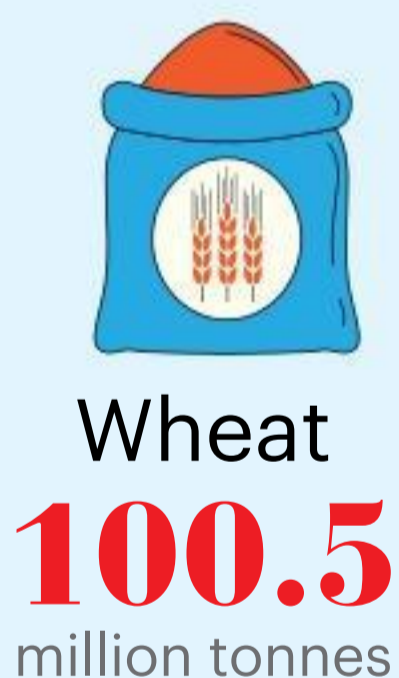
“(RESTARTING AGRI MARKETING OPERATIONS AND ALLOWING MORE PRIVATE PROCUREMENT) WILL TAKE CARE OF FARMERS' CASH NEEDS AND CONTINUE SUPPLY”

S. Sivakumar
Head, agri and IT business, ITC



WHAT'S AT STAKE: THE RABI TARGET

A large volume will need to be harvested and processed



Source: Ministry of Agriculture

Clearing the Path

The silver lining is that the Centre seems to be listening. It has already asked states to relax restrictive agriculture marketing norms. Registered warehouses are now deemed *mandis* to allow farmers to skip crowded *mandis* and facilitate e-NAM transactions. On April 4, the agriculture ministry asked state governments to allow bulk buyers, processors and big retailers to purchase agri-produce directly from farmers bypassing the established *mandi* systems for at least three months.

The directive is meant to achieve two objectives – decongest *mandis*, and allow farmers to sell at remunerative prices at their own doorstep by allowing aggregators

to source directly from them.

In a letter to the states, the agriculture ministry suggested that they temporarily relax the monopoly of APMC markets by limiting their regulatory powers within the physical premises of such notified markets. The big buyers should be allowed to buy directly with minimum or no licensing or registration, the letter said.

The directive also mentioned that since the harvest season has started, there is an immediate need to facilitate direct marketing by farmers/group of farmers, FPOs and cooperatives. On April 2, the central government had exempted the services of direct marketing – from farmers, groups of farmers, FPOs and cooperatives – from the lockdown restrictions.

Kapil Dev, EVP and head of business and products at commodity exchange NCDEX, says, the new arrangement should work well. “The government has now integrated e-NAM and e-NWR (electronic negotiable warehouse receipt). Farmers can reach out to the nearest warehouse, generate e-NWR and sell through e-NAM. That will avoid all farmers reaching *mandis* at one time. Farmers can plan, and even labour can be worked out,” he says. The move will also help farmers discover the fair price for their produce as e-NAM bids happen at a national level. “e-NWR is also a negotiable instrument so farmers can get finance from banks” in lieu of the receipts, he added.

Ensuring Supply

Big firms are working their way out. “We are working closely with authorities in different states and districts – who have been very supportive – to ensure that manufacturing and downstream supply chain activities continue uninterrupted, with heightened safety protocols. It’s an evolving situation and (resumption of normalcy) will completely depend on when and how the lockdown gets lifted,” ITC’s Sivakumar says. It’s important for states to design safer processes to operate *mandis* and restart agri marketing operations in a calibrated manner, as also to expand capacity by permitting more private procurement centres. “This will take care of farmers’ cash needs while ensuring their safety, and continue the supply to consumers,” he adds.

But disturbing news continues to pour in from different parts of the country – onion prices crashing in Maharashtra, grape harvest thrown away as compost by some farmers in Karnataka, and more. The problems are far from over. A final solution will depend on how long it takes India to fight off the coronavirus pandemic. **BT**

With inputs from Ajita Shashidhar

@joecmathew

COVER STORY

CORPORATE

THE CORONAVIRUS ECONOMY

Car companies are making ventilators, sugar mills and liquor producers are bottling hand sanitisers, apparel makers are diversifying into masks and protective clothing, drug and drone makers are witnessing a surge in demand. The war against Covid-19 is already a ₹12,000 crore economy

BY SUMANT BANERJI

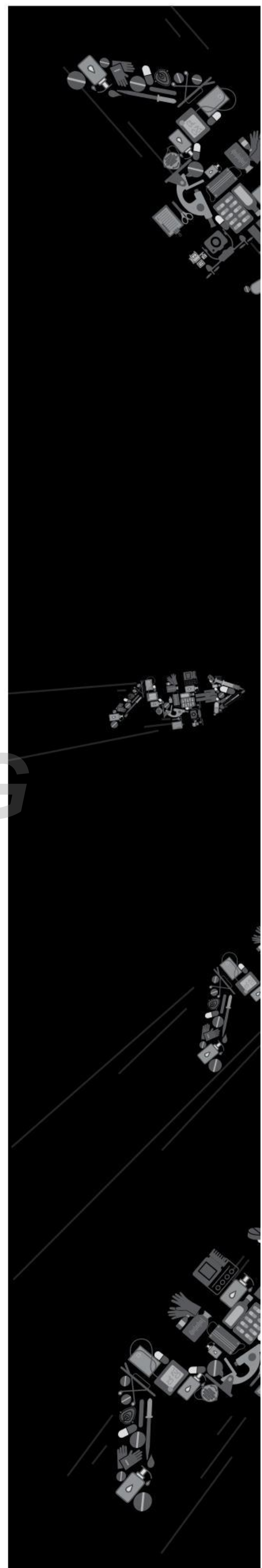
ILLUSTRATION BY RAJ VERMA

MAGAZINE KING



2016 when Delhi-based neurosurgeon Deepak Agrawal teamed up with robotics engineer Diwakar Vaish to set up a company to make portable ventilators in Noida, the aim was small. India needed about 6,000-8,000 additional ventilators every year and AgVa Healthcare, the company they founded, had a peak capacity of 5,000 units (though it has since then been producing around 300 units) every month.

The coronavirus pandemic outbreak earlier this year has completely changed the script. While overall mortality rate of the virus is low, in its most fatal form, it attacks lungs, which necessitates use of a ventilator. India has barely around 57,000 ventilators and the pandemic has opened up floodgates for companies like AgVa to scale up their business. Almost overnight.



ROOM FOR GROWTH

₹8,000
crore

The opportunity in hand sanitiser and handwash categories. By the end of this year, they are slated to corner 16 per cent of the overall personal hygiene segment compared to just 2 per cent today

₹1,500
crore

Expected increase in revenue for pharmaceutical companies. India is the largest producer of anti-malarial drug hydroxychloroquine and stands to gain the most from its demand

₹1,000
crore

The potential revenue from increased ventilator production in the country. The potential for export is estimated at ₹200 crore on top of this

₹600
crore

The expansion in the market for drones in the medium term. This includes legal as well as grey market sales

₹200
crore

Size of the PPE market in the wake of demand for coveralls, face shields, gloves and masks

MAGAZINE KING

“We were producing about 300 of our low-cost ventilators. Now the demand is to ramp it up to 20,000. Never in our dreams did we anticipate this,” says Vaish.

AgVa is getting help from India’s largest carmaker Maruti Suzuki India (MSIL). The Japanese firm makes close to 1.7 million cars every year and knows a thing or two about sourcing components and scaling up. “In the one-odd week that we have been together, we have been able to get domestic supplies organised along with manpower and logistics to scale up their production 30-50 times,” says R.C. Bhargava, Chairman, MSIL. We are now trying to arrange parts from China where there is a bit of a delay. Still, we should be able to manufacture about 400 ventilators a day before the end of this month.”

The threat of the pandemic spreading in India has led to a number of disparate companies joining hands or diversifying. If car companies like Maruti are helping the likes of AgVa to scale up, liquor maker Diageo or Triveni Sugar’s mills in Uttar Pradesh are producing hand sanitisers, while garment companies like Arvind have put everything aside to make masks and coveralls. At the same time, pharmaceutical companies have ramped up capacities for drugs like hydroxychloroquine and azithromycin and drone manufacturers are witnessing a virtual flood of orders as authorities line up to procure them for surveillance and aerial sanitising purposes. Together, across a variety of sectors, the opportunity from the pandemic is valued upwards of ₹12,000 crore. And this is just a conservative estimate.

If the virus has, on the one hand necessitated a lockdown of the entire country and brought traditional economic activity to near-standstill, it has also created a war-like economy of its own.

Mad Rush for Ventilators

One of the biggest and most urgent opportunities for manufacturing that the pandemic has presented not only in India but across the world is for ventilators. There are no sure-shot figures available for India but estimates suggest a figure of 57,000 units. What is certain is that for a country of 1.3 billion-plus, this is grossly inadequate. According to a Brookings report, if cases spiral in India, it may need as many as 110,000-220,000 ventilators as early as mid-May. Even at the lower end of the spectrum, this is a ₹1,000 crore industry in the making.

“An estimated 5-10 per cent of all patients will require critical care in form of ventilator support. In a worst-case scenario, according to one estimate at least, we may end up with 2.2 million cases in India by May 15. Clearly, the growing demand for ventilators is going to outstrip the limited supply really soon,” the report said.

PHOTOGRAPH BY RACHIT GOSWAMI



“WE ARE WORKING WITH AN INDIGENOUS MAKER OF ICU VENTILATORS. THESE ARE SOPHISTICATED MACHINES COSTING ₹5-10 LAKH. THIS DEVICE IS AN INTERIM LIFESAVER. THE TEAM ESTIMATES IT WILL COST BELOW ₹7,500”

Anand Mahindra, Chairman, M&M

India needs ventilators by the truckload and it needs them fast. The trouble is, not too many are made here and the most sophisticated ones used in ICUs are imported. They cost a lot – ₹5-10 lakh – and purse strings are tight. So when Anand Mahindra tweeted on March 26 that a team of employees at the company’s Igatpuri and Kandivali factories have developed an interim life saver for as low as ₹7,500, it created quite a flutter.

“Cases could rise exponentially with millions of casualties, putting a huge strain on medical infrastructure. We need to create scores of temporary hospitals and we have a

INDIA IS SHORT OF DOCTORS



India's requirement and availability to fight Covid-19



Masks
890
lakh



Examination Gloves
760
lakh



Goggles
16
lakh

	Requirement	Availability	No. of domestic mfrs	Current capacity
Ventilators	1.2 to 2.2 lakh by May 15	57,000	12	5,800 per month
PPEs (coveralls)	15 lakh	3.34 lakh	39	7,000/day (37 lakh/annum)
Masks (N-95)	50 lakh	N/A	22	22.25 crore*
Gloves	2 crore	170 crore	30	200 crore

*Full capacity yet to be made operational; Source: AiMed and Ministry of Health and Family Welfare

scarcity of ventilators," he had tweeted. "To help in the response to this unprecedented threat, we at the Mahindra Group will immediately begin work on how our manufacturing facilities can make ventilators."

Pawan Goenka, Managing Director of the company's automotive division, later elaborated on Mahindra's two pronged ventilator manufacturing plans. "At one end, we along with two large PSUs, are working with an existing manufacturer of high spec ventilators to help them simplify design and scale up capacity. Our engineering team is right now with them working on it," his tweet read. "At (the) other end, we are working on an automated version of the Bag Valve Mask ventilator (commonly known as Ambu bag). We hope to have a proto ready in three days for approval. Once proven, this design will be made available to all for manufacturing."

Mahindra and Maruti are not the only ones. Other carmakers like Tata Motors and Hyundai have also said they are looking at the possibility of making ventilators. One of the possible partners for them is India's largest domestic medical devices manufacturer, Triviron Healthcare. The company was making only 500-700 portable and hospital specific ventilators in a year but is targeting 10,000 a year and is in advanced discussions with two auto majors.

57,000

The estimated number of ventilators available in the country

Even automotive component manufacturers have thrown their hat in the ring. S. Vijayanand, CEO of automotive and industrial battery maker Amara Raja Batteries, says the company is working on a solution where any available ventilator can be used for multiple patients. "It is an in-house effort at the moment and we have set for ourselves a two-week deadline to come up with a prototype that can be used on any ventilator used in ICUs by hospitals," Vijayanand says. "Once it is ready, we will get it validated by

the regulatory authority and take the required expert help to scale it up fast. Like the World War threw up many innovations, if this does emerge as a unique solution, then we could look at it as a business opportunity but not at the moment. Right now, the focus is doing our bit."

Sanitisers Go Big

The opportunity in ventilators is, however, small fry compared to the one in hand sanitisers and hand washes in the personal hygiene category of the larger FMCG sector. Hand sanitisers have been in India for over a decade, but it is only now that they have gone mainstream.

Market research firm Nielsen says sale of hand sanitisers grew 53 per cent in February, far outstripping growth in the overall FMCG space, which was in low single digits.

Personal hygiene products as a category did particularly well on e-commerce platforms with an over 1,400 per cent jump in sanitiser orders between February and the first two weeks of March.

This growth has become more explosive as the pandemic deepens. With doctors and experts prescribing washing hands repeatedly during the day as a way to keep the virus away, FMCG majors are scrambling to increase capacity. By the end of this year, experts believe sanitisers and hand washes would corner 16 per cent of the personal hygiene market from just 2 per cent right now. In outright value terms that is an eight-fold jump to ₹8,000 crore.

It is not surprising then that new players like CavinKare, Dabur and VLCC have entered this segment recently. More are likely to follow suit. "Sanitisers are the need of the hour," says C.K. Ranganathan, CMD, CavinKare. His

expected to go up by 15-16 per cent in the future).

"Coronavirus will see huge long-term shifts in habits. Mothers will force children to use sanitisers and wash their hands multiple times a day with hand wash," he says, adding that sanitisers is only a start. The company will innovate substantially in this category over the next few months.

Similarly, India's largest ayurvedic and natural consumer products manufacturer Dabur has forayed into the category with its hand sanitiser Dabur Sanitize that will initially be available on e-commerce platforms and subsequently in modern retail and offline stores. Another new entrant is fitness and skincare company VLCC, which has decided to divert part of its production capacity in Haridwar for sanitisers.

"Indeed, demand is likely to grow for hand washes

WHO IS DOING WHAT



The Mahindra group is collaborating with two PSUs to make ventilators. It is also making face shields at its Kandivali factory and has helped a start-up convert its factory to produce masks



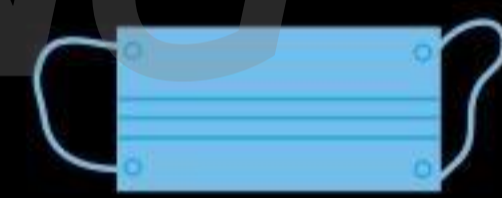
Maruti Suzuki has tied up with AgVa Healthcare to produce up to 10,000 ventilators every month. Two other component firms Krishna Maruti and Bharat Seats are making masks and protective clothing



Sugar mills in UP, including Triveni Sugars, Balrampur Chini Mills, Bajaj Hindustan and DCM Shriram, are producing hand sanitisers



Liquor companies like Diageo, Jagatjit Industries and Radico Khaitan have also ventured into hand sanitiser production



Apparel and textile brands like Arvind and Welspun have diversified to produce masks and protective coveralls

company forayed into the segment with an innovative and affordable ₹1 sachet sanitisers. The company was already working on its hand sanitiser portfolio but fast tracked it in view of the opportunity in the market. "Packaging them in sachets was not too much of a challenge as we sell perfumes in ₹1 sachets. Perfumes contain alcohol, so do sanitisers. We know the technology," he says.

Ranganathan says sanitisers are going to become a way of life and hence a substantial part of most FMCG companies' portfolio (sanitisers and hand wash are currently just 1-2 per cent of most FMCG companies' portfolio and this is

and soaps. This is not something we are obsessing about right now. The priority for the time being is to try and get as much of the finished goods as possible out to those who need them. In the last 10 days or so since we diverted part of our production capacity and started making hand sanitisers, we have shipped out about 200,000 pieces," says Jayant Khosla, MD and Group Head, VLCC.

Existing players have also ramped up capacity giving priority to sanitiser production. ITC has converted its perfume manufacturing facility in Manpura in Himachal Pradesh into a Savlon sanitiser factory. The perfume fac-



PHOTOGRAPH BY VIVAN MEHRA

“WE HAVE BEEN ABLE TO GET DOMESTIC SUPPLIES ORGANISED ALONG WITH MANPOWER AND LOGISTICS TO SCALE UP PRODUCTION 30 TO 50 TIMES. WE ARE NOW TRYING TO ARRANGE PARTS FROM CHINA AND SHOULD BE ABLE TO MANUFACTURE ABOUT 400 VENTILATORS A DAY BEFORE THE END OF THIS MONTH”

R.C. Bhargava
Chairman, Maruti India

tory has been repurposed to make an additional 125,000 litres of Savlon hand sanitisers. “This initiative reinforces our efforts to enable enhanced production and supply of Savlon range of hygiene products in the market which is the need of the hour,” says Sameer Satpathy, CEO (Personal Care Products), ITC.

Sugar Mills, Distillers Too Get Into the Act

The demand for sanitisers over the next few weeks and months is expected to be such that FMCG companies aside, liquor companies and sugar mills too have stepped

in offering to use their supply of extra neutral alcohol (ENA) – a key raw material derived from sugar molasses and grain – to make sanitisers.

Global spirits maker Bacardi started production of 70,000 litres of hand sanitisers in India to help cope with growing demand. Globally, the American firm will produce more than 267,000 gallons (1.1 million litres) of hand sanitisers across its manufacturing facilities in the US, Mexico, France, England, Italy, Scotland and Puerto Rico. In India, sanitisers are being produced at its co-packing facility in Telangana. It intends to roll out in additional states where it has co-packing manufacturing facilities.

“We, at Bacardi, have always endeavoured to support local communities, especially during difficult times like these. By boosting the supply of hand sanitisers, we hope to strengthen the fight against Covid-19,” says V. Muthukumar, Operations Director, Bacardi India.

Bacardi is part of a long list of alcoholic beverage makers in India such as Diageo, Jagatjit Industries, Radico Khaitan and a number of sugar mills, mostly in Uttar Pradesh, including Triveni Sugars, Balrampur Chini Mills, Bajaj Hindusthan Sugar, DCM Shriram and Dalmia Bharat Sugar Mills that have started producing hand sanitisers. The sugar mills will together produce 38,054 liters of sanitiser daily.

Jagatjit Industries, which makes brands such as Aristocrat whisky, has started supplying 5,000 litres of hand sanitisers to the Punjab government. Diageo India that makes Smirnoff Vodka and Johnnie Walker whisky is producing around 300,000 litres of bulk hand sanitiser across 15 manufacturing units for use by public healthcare workers. It will also donate 500,000 litres ENA to the sanitiser industry to enable the production of more than two million units (250 ml each) of hand sanitisers.

Similarly, Radico Khaitan, which makes 8PM whisky and Magic Moments vodka, is expanding the use of ENA at its mother distillery in Rampur. The product – 8PM Extra Strong Hand Sanitiser – will be distributed free to government offices and hospitals in and around Rampur.

Masking the Epidemic

Like hand sanitisers, the spread of the epidemic has also seen a boom in demand for personal protective equipment like face shields, coveralls and masks. The shortage of these in India is almost as grave as ventilators. So is the lack of domestic production. About 15 lakh PPEs (coveralls), 50 lakh N95 masks and another 10 million three-ply masks are required. The availability is only a fraction of that.

Orders have been placed for more than 10 million N95 masks but it may be too late by the time all of it is made

“OUR INITIAL RESPONSE IS TO MAKE MASKS AVAILABLE TO THE GOVERNMENT. SO WE DON’T WANT TO SECOND GUESS THE BUSINESS MODEL FOR THIS CATEGORY. (BUT) WE HAVE BEEN WITNESSING AIR POLLUTION AND PEOPLE USING PROTECTION BUT SPORADICALLY. PERHAPS MOST CITIZENS WILL INVEST IN THIS KIND OF PROTECTION”

B.K. Goenka
Chairman, Welspun Group



available. For overall PPEs, availability is 3.34 lakh. The requirement is for 15 lakh. This acute shortfall has seen various companies jump into manufacturing of masks and coveralls, either as a diversification and a business opportunity or as a temporary measure for CSR.

This is largely an unorganised segment split into two halves. One consists of high-end equipment used for medical purposes that are mostly imported. The other is the basic kit manufactured by sundry cottage industries. The potential of the ₹200 crore business opportunity could be the start of serious players entering the fray and the segment becoming organised.

India’s largest apparel manufacturer, Arvind, has started making protective coveralls and masks (non-N95) after it was approached for help by the government. The company says this category was so well supplied by Chinese manufacturers that there was no need for any domestic firm to venture into this. The lockdown and the impact on supply has opened up the opportunity for domestic players.

“We will be making protective coveralls. We are also making some masks, which are not N-95. We do not have the appropriate machinery for N-95 masks. But these will be masks that can be used by essential service workers and not the frontline workers. For frontline workers we are only making coveralls,” says Punit Lalbhai, Executive Director at Arvind, who leads the company’s Advanced Materials and Engineering unit.

Lalbhai is unsure of the demand but given the rapid spread of the disease, he believes it could run into lakhs.

The ramp-up, however, is slow as machines to manufacture these specialised products are hard to procure.

“There will be small supplies and it will take two to three weeks to ramp up capacity of the machines we have. We have procured as many specialised machines as were available and the raw material is just starting to come in. It was taking time but the government is moving mountains to facilitate this,” he says, adding that they will begin by making around 1,000 a day and subsequently double that. “We are also working with the health ministry to adopt design changes or alternatives that could help ramp up production even further,” he says.

Another company that has diverted its existing production to make masks and disinfectant wipes is Welspun. The company’s factory at Anjar in Gujarat that makes home textile products largely for exports is today building a pipeline of a few hundred thousand masks and wipes. The company feels it is a natural extension of its core business, which included technical textile durables for automobiles.

Smaller firms and start-ups are joining in. Mumbai-based social start-up Saral Designs has tied up with Mahindra to modify its sanitary pad making machine to produce 3-ply surgical masks. These are being produced at Mahindra’s Kandivali factory that is being prepped up to produce 10,000 masks per day. Along with ventilators and masks, Mahindra is also making face shields at the factory for medical practitioners. The design for these shields was sourced from Ford with whom Mahindra tied up last year for cars.

Bata India has in the past 10 days manufactured around 5,000 masks with fabric used in shoe linings, at its Batanagar plant near Kolkata. These masks have been donated to Kolkata Police. Sandeep Kataria, CEO, Bata India, is waiting for the lockdown to be lifted so that fresh stock comes and masks are made on a large scale. "We can make both basic and medical masks once we get fresh stocks," he says. But it is not a new business opportunity for the company. "We won't look at it as long-term business but we will certainly manufacture in large scale in the short-term to help the government. This initiative will not give us revenue or profits," Kataria says.

On a smaller scale, global engineering and tech solutions company Cyient has converted its manufacturing line in Mysore to produce medical equipment used in diagnostics for Covid-19. Cyient is producing assemblies used in X-ray generators from GE Healthcare and diagnosis units from Molbio Diagnostics to enable rapid disease testing in India.

Of Drugs and Drones

On April 7, as the BSE Sensex recorded its biggest-ever single-day gain of 2,476 points, the rally was led by pharmaceutical companies. Following the government decision to lift the ban on export of 24 drugs, including the much in demand anti-malarial drug hydroxychloroquine (HCQ), Nifty Pharma recorded its biggest jump in history gaining 10.43 per cent on the day.

Hydroxychloroquine has fast gained reputation as one of the potential cures for coronavirus and presents a big upside for Indian pharma. India is the largest producer of this drug and accounts for nearly 80-85 per cent of the drug's global supply to 70-80 countries, including combinations/formulations. Not surprising then that leading manufacturers of the drug aim to increase capacity four times to 40 metric tonnes (MT) by the end of this month and to over 70 MT by next month. This on its own has the potential to inflate revenues for India's pharmaceutical industry by ₹1,500 crore.

Unlike ventilators, masks or sanitisers, where there is a shortage in India, this is an area which promises a

definite windfall for domestic companies. The country has a peak capacity to produce 350 million tablets of 200 mg dosage every month. India's own requirement is unlikely to exceed 100 million tablets for which the government has already placed an order with leading domestic manufacturers Zydus Cadila and Ipca Labs. Industry experts say 100 million tablets are good enough to treat about seven million people, if required. In India, HCQ costs less than ₹3 per tablet.

The opening up of the market for exports enables companies to go full throttle. The demand from overseas is likely to be immense. The remaining production will be exported to neighbouring countries as well as others such as the US and Brazil. According to some studies, HCQ has shown strong anti-viral effects on the coronavirus infection, which prompted US President Donald Trump to seek India's help in procuring the drug.

"Together, we estimate active pharmaceutical ingredient (API) production can be augmented to 40MT this month and to 70MT per month in two months," said a top executive with a leading HCQ drug manufacturer.

Three Indian manufacturers - Zydus Cadila, Ipca Labs and Laurus Labs - have backward integrated production capacity from key raw materials that can be converted to intermediates and then to APIs and to final formulations.

Other leading manufacturers of HCQ include Intas Pharma, McW Healthcare, Macleods Pharmaceuticals, Cipla and Lupin. API suppliers for

the drug include Abbott India, Rusan Pharma, Mangalam Drugs, Unichem Remedies, Vijayasri Organics, etc.

"We have ramped up production to 20MT to meet requirements and will be scaling up further to 40-50MT in coming months, if the need arises. As we are fully integrated, this should not pose a challenge. The priority is to ensure all patients who need the drug get it," Zydus Cadila Managing Director Sharvil Patel said in a statement.

The current increase in production is already 10-fold from about 4MT. This enhanced capacity is good enough to make about 150-200 million tablets. The US Food and

THE EQUIPMENT PROBLEM

80-85%

Level of import of all medical devices for intensive care in India which includes ventilators

170,000

Number of ventilators in the US, the worst affected by the pandemic. It is also facing an acute shortage

25,000

Number of ventilators in Germany for a population of 83 million. It is the best equipped among all European countries

Drug Administration (US FDA) has temporarily cleared the over three-year ban on Ipca's API manufacturing unit at Ratlam in Madhya Pradesh and two formulation facilities in Pithampur in Madhya Pradesh and Silvassa. Ipca, which earned 18 per cent of its revenues in FY19 from sale of anti-malarials, had sales of API and intermediates worth ₹885 crore. About 77 per cent of this was exports, except to the US due to the ban. With the US added to the mix, the numbers can inflate substantially.

India's exports of HCQ in FY19 was estimated at just \$51 million and the current size of the US market is \$220 million, generating about 5.5 million annual prescriptions. Zydus Cadila is the largest player in the US with 32 per cent market share by volume. The top 10 players include Dr Reddy's Lab (10 per cent) and Sun Pharma (7 per cent).

Drones Take off

If the drugs are meant to cure, the lockdown has benefited another sector that helps contain the spread of the disease—drone manufacturing. There are no official numbers but the spike in demand is led by state governments and police forces. Drones are largely being used for public safety, surveillance, communications, delivery of medical equipment and disinfectant spraying. They are reportedly being used by police forces in Kochi and Punjab to nab lockdown violators. Chennai Police is using them to make announcements. Authorities in Telangana have gone a step ahead by using drones with mounted thermal cameras to monitor real-time body temperatures, especially in coronavirus hotspots. Nearly all state governments are using drones in some form or the other.

"Drones were always used for surveillance but as the situation is evolving, we are seeing new use cases emerging. The most promising are using megaphones for public announcements and thermal cameras. In India, thermal cameras can be a game-changer in the fight against coronavirus," says Ankit Mehta, co-founder of a leading drone manufacturer ideaForge. Mehta, who has sold drones to over 12 state governments, primarily police departments



"WHILE IT GENERALLY TAKES 6 TO 18 MONTHS FOR DEVELOPING A NEW PRODUCT, WE WERE ABLE TO MAKE THIS QUALITY SANITISER AVAILABLE IN JUST TWO WEEKS"

C.K. Ranganathan
Chairman, CavinKare

AS PER ESTIMATES, DRONE SALES IN THE GREY MARKET HAVE JUMPED THREE-FOUR TIMES OVER THE PAST MONTH

of Maharashtra, Assam, Gujarat and Rajasthan, says the number of queries has shot up over the past two weeks. "We got 100-plus enquiries but conversions have not been necessarily big. Also, most drone manufacturers are not sitting on large inventories but we have a huge capacity to make drones if large orders come," he says.

As per estimates, sale of drones in the grey market has jumped three-four times over the past month. The demand from legal channels remains weak due to lengthy procedures laid out by Ministry of Civil Aviation (MoCA) to acquire drones. India is a nearly 2-lakh drone market, where about 20,000 machines are legally registered with the ministry. The rest of the operators are working under shadows. The pandemic is expected to give a ₹600 crore fillip to the nascent industry, including sales in the grey market.

A large drone manufacturer says every district in India should have at least three drones in the current scenario. This translates into 2,200 drones whereas the actual number would be around 200. "To facilitate deployment of drones for critical uses, the central government must immediately waive NPNT (no permission, no take-off) and digital sky restrictions for local authorities that wish to deploy drones for the duration of the outbreak. These actions would speed up demand for legal channels," says the drone manufacturer.

Drones are important as they can do much more than existing technologies. A back-of-the-envelope calculation suggests 5,000 CCTVs can cover just about 5 per cent of a city area. To cover a whole city, about a lakh CCTVs are needed. This is expensive due to the supporting infrastructure and fibre network that is required. Use of drones reduces dependence on CCTVs. "The biggest utility of drones is that they can fly over a vast area which cannot be covered with physical patrolling. The data can be captured and analysed in real-time. Drones have significantly reduced the response time of local authorities," says a drone association member.

Drones makers and other agencies foresee some of these new technologies, especially megaphones, thermal



“THE DEMAND FOR SANITISERS IS INCREASING BY THE HOUR AND WE WOULD LIKE TO USE OUR MANUFACTURING UNITS TO JOIN IN THE EFFORT TO REDUCE THE DEMAND-SUPPLY GAP, SO CRITICAL AT THIS HOUR”

Anand Kripalu
MD and CEO, Diageo India

“WE WILL MAKE PROTECTIVE COVERALLS. WE ARE ALSO MAKING SOME MASKS, WHICH ARE NOT N-95. BUT THESE CAN BE USED BY ESSENTIAL SERVICE WORKERS”

Punit Lalbhai
Executive Director, Arvind



sensing and spraying, to develop into bigger businesses going forward. For instance, the commercial use of drones mounted with megaphones can be found in infrastructure, telecom and agriculture where these machines can be used to communicate messages over a larger area. Similarly, the police can continue to use thermal cameras to prevent crimes, and drones could also be deployed in solar grids and coal mining sectors to gauge temperature of critical areas.

An April KPMG report titled *Potential Impact of Covid-19 on the Indian Economy* says drone-based crop spraying can be tried in future if labour shortages arise. The learnings from the delivery of medical supplies at this moment could be a reference point for other sectors – e-commerce, food delivery, public transport – to tap into the opportunities that exist in their areas. Although some companies (and drone makers) are ready with drone-delivery tech – and are waiting for the government’s nod – the crucial application of the tech in the current crisis would make their case stronger.

“Currently, thermal imaging technology is not widely available in CCTVs. Besides, CCTVs can only see faces from the ground-level. Drones have proved to be effective in covering a large area with highly accurate results of catching suspected people with diseases. I see possibility of every police department using thermal cameras on drones to become a norm in the country,” says a drone manufacturer quoted above.

IT to the Rescue

India’s three-week lockdown has also acted as a benefactor to the IT sector with work from home option being exercised on a scale never tried before. On one hand, Artificial Intelligence technology and platforms are being extensively used in prediction of coronavirus spread through processing huge data-sets across the world. On

the other, large tech companies are witnessing green shoots in certain business segments with companies shifting to newer working models.

An example of using AI to fight the challenge at hand, is IBM’s AI platform - WATSON. The ‘IBM Watson Assistant for Citizens’ brings together Watson Assistant, Natural Language Processing capabilities from IBM Research, and enterprise AI search capabilities with Watson Discovery, to understand and respond to common questions about coronavirus. “To introduce this in India, IBM Research has trained Watson Assistant to answer queries in English and Hindi to enable government agencies and departments to offer

this service to constituents” says Gargi Dasgupta, Director - IBM Research India and CTO IBM India/South Asia.

Cisco India and SAARC region President Sameer Garde argues the role of AI in managing future crisis from this point will only accelerate. “Today, cognitive collaboration and AI are already reshaping the workplace. As workflows become complex, teams become diverse and distributed, cognitive collaboration platforms are used to remove a lot of common friction points and provide contextually relevant insights to enable people and organisations perform at a higher level,” says Garde.

Deloitte’s Paul Sallomi, Global Technology leader, in a note on the impact of coronavirus on the technology sector, points out that companies that are involved in delivering remote working technologies, hardware, security software (particularly Cloud-based tools), log management and VPNs will witness demand from increased remote working workforce. Cisco said in March that it witnessed over 14.3 billion minutes of Webex usage globally. In India, over 6 million meetings were held on Webex with nearly 20 million participants.

Every crisis, big or small, leads to a lot of destruction but also innovation. Nestle got wind in its sails when demand for its condensed milk soared during World War I. The Volkswagen Beetle, one of the German carmaker’s all-time best-selling models, has its genesis in World War II. The economy that has come up in India, centred in and around the fight against coronavirus, which is also being referred to as the third World War in some quarters, could end up doing the same for any of these companies.

Necessity after all, is the mother of invention. **BT**
With inputs from P.B. Jayakumar, Ajita Shashidhar, Rukmini Rao, E. Kumar Sharma and Manu Kaushik

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BUILDING ON CORONA

How healthcare, FMCG, pharma, petrochemical and IT companies will turn the capabilities acquired during the coronavirus crisis into new businesses in India and abroad

BY P.B. JAYAKUMAR
ILLUSTRATION BY RAJ VERMA

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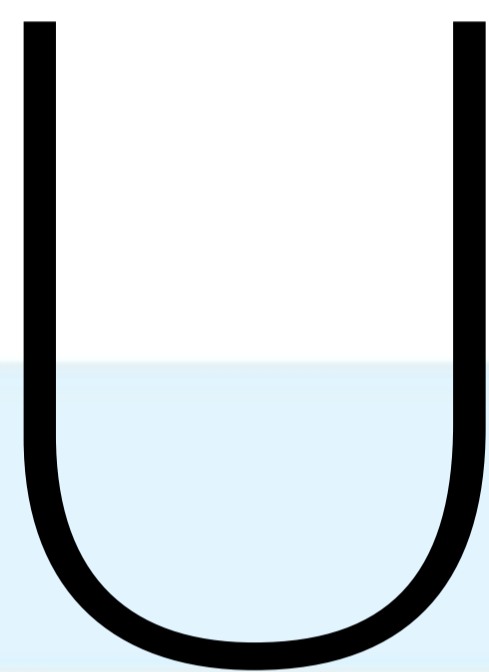


COVER STORY

CORPORATE

“What’s true of all the evils in the world is true of plague as well. It helps men to rise above themselves”

Albert Camus, *The Plague*



Unusual misfortunes create unexpected business opportunities. R.C. Mansuhkani, Chairman of Man Industries – which makes special steel pipes for oil & gas and hydrocarbon sectors, is keen to restart his factory at Anjar in Kutch, Gujarat. So far, Corona has not reached Kutch. The 2,000-plus workforce, mostly migrant workers, is idling in dwellings provided by the company. This ₹2,200 crore-plus company, the largest supplier of such specialised pipes, has a near ₹2,000-crore order book, half of which is for exports. Raw material (steel) prices are cooling and supplies, even from China, Japan and South Korea, have not been hit so far. Crude oil prices are also falling and his clients like IOC, BPCL, ONGC and oil exploration and production companies abroad are unlikely to freeze refinery expansion or repair work. “There can be only two-three week delay in supplies. I don’t see many issues for us in both near and long term, compared to many other sectors,” says Mansuhkani, who is worrying more about high working capital loan rates that can negate his competitiveness on a global level.

Mansuhkani is raring to go post-lockdown and so are several of India’s healthcare, pharmaceuticals, FMCG, vaccine, chemicals, hospitality and IT companies, which are gearing up to turn the capabilities acquired during the coronavirus crisis into new businesses in India and abroad.

The post-coronavirus future will be defined by greater localisation of supply chains, backward integration, faster policy decisions, increase in digital capabilities and investments in enabling technologies such as cloud, data and cyber security. Focus will be on cutting business costs, including fixed costs, increasing outsourcing, reducing manpower, bringing down non-core manufacturing and supply chain realignments, say experts.

There will be many gainers from this crisis, apart from the prime and obvious candidates like our healthcare and biomedical sector. Before exploring the opportunities in health, let’s look at other sectors like FMCG, IT, petrochemical and textiles that are facing the brunt of this disruption but have been able to identify opportunities, too.

E-tail and Manufacturing

With supply chains broken during lockdown, FMCG majors Marico and Britannia teamed up with delivery platforms such as Swiggy, Zomato and Dunzo to distribute products being churned out by their plants. Flipkart and BigBasket partnered with cab aggregators such as Uber for delivery. Many retailers are also partnering with third-party supply chain companies like ShopX, Udaan, StoreKing and Jumbotail. “We are looking at third-party supply chain companies which have a strong digital backbone,” says Unibic CEO Srinu Vudayagiri.

These new relationships are unlikely to snap post lockdown. They have stood the test of a crisis and have proven their effectiveness. They are projected to evolve into new business partnerships when lockdown opens.

Market research firm Neilson says life after Covid-19 will be “a new normal” and FMCG companies and online retailers will be among the major gainers. FMCG firms are re-inventing themselves for the future

with new supply chain strategies and unconventional delivery models. This may be temporary for some but everybody agrees these models will gain prominence.

“E-commerce companies have to re-look at last-mile deliveries and reinvent current operating models and route to the customer, apart from how they buffer their stock. The entire

\$200
BILLION

The projected size of the ecommerce market in 2024, from \$64 billion in 2020

POSSIBLE OPPORTUNITIES



FMCG & IT

New supply chain management strategies

Bigger role for third-party supply chain partners

E-commerce companies to reinvent delivery, operating models

AI, cyber security, analytics, robotics and drone companies to gain

Telemedicine to get a fillip



Petrochemicals

Fall in oil prices to help

India and China to become production hubs

China's inventory to drive down prices

PCPIR investments to get a boost



Pharma/Biotech

A new API development ecosystem to take shape

Thrust on biotech drugs and vaccines

Focus on reinventing old pharmaceuticals

Focus on new chemical entities instead of generics

Development of science, IP-driven entrepreneurial culture

operating model will change,” says Easwaran P.S., Lead, Supply Chain Solutions, Deloitte India. The companies will explore newer “direct to consumer” channels. The ability to predict and manage demand will be a game-changer.

While Bata India CEO Sandeep Kataria says one can't really predict the future at this point, Arvind Mediratta, CEO, Metro Cash & Carry, says: “Digitisation earlier was a nice-to-do thing, but now it's becoming a must.”

The e-commerce market in India is forecast to grow from about \$64 billion in 2020 to about \$200 billion by 2024. The post-coronavirus scenario and new business models can accelerate this growth.

IT and Telemedicine

Sometimes, all it needs is a push and a shove for an industry to boom. Just as Paytm took off after the DeMo crisis, doctor consultations online may just become acceptable following the lockdown. So, healthcare aggregators like Ratan Tata-funded Lybrate and HealthAssure are leaving no stone unturned to make the most of this. They have launched new packages and innovations in the wake of the virus scare. Lockdown may have unravelled the true potential of “Telemedicine” as the number of people going to outpatient departments of hospitals will diminish.

“Every industry has to find ways to digitally engage with customers and employees,” says Rob Thomas, General Manager, IBM Data & AI, which is helping numerous industries worldwide with its AI platforms for data analysis

and communication. CISCO India & SAARC President Sameer Garde says many new technology-enabled businesses are emerging. These include telemedicine, online education and virtual conferences and meetings. “The current circumstances are bringing a lot of new technologies like analytics, AI, robotics, drones, AR/VR to the forefront. We can expect their adoption to accelerate,” he says.

A McKinsey report says India could save up to \$10 billion by 2025 if telemedicine replaces 30-40 per cent of in-person outpatient consultations. Banking on opportunities in the medical tourism segment, corporates like Apollo Hospitals are experimenting with business models combining telemedicine, hospitals and hospitality. A few days ago, Apollo Hospitals Group launched a partnership model to help quarantined patients stay at hotel rooms with telemedicine treatment support from Apollo. The partners are Hindustan Unilever, State Bank of India, Oyo Rooms, Lemon Tree, Ginger Hotels and Zomato. Already, private healthcare is popularising the concept of key-hole surgeries and daycare surgical centres for minor procedures, so that they can improve their Average Revenue Per Occupied Bed.

There will be a host of changes in customer behaviour, too, say experts. Sanitation, self-hygiene, immunity, wellness and biowaste disposal are some businesses that will indirectly get a fillip. A good number of people may avoid crowds and shop and order food online. “Fears related to social distancing are there to stay for some time, and we are looking at models like home delivery and e-tailing to im-



Public Health

Increased spending on public health

Focus on primary and secondary care

Relook at health as a Centre-State subject

Use of digital health tools in primary and secondary care



Medical Devices

Corporates to invest heavily in medical devices as a business

Indian manufacturers to get a level-playing field

India to aim to be among the top five medical devices manufacturing hubs in the world

More grants and institution tie-ups for R&D

Indian companies to compete globally with lower prices

prove sale of spirits,” says Amrit Kiran Singh, Chairman of the International Spirits & Wines Association of India. India consumes about 350 million cases of spirits and 10 million cases of wine, but consumption out of bars and restaurants is only 25 per cent. In the developed world, it is 50 per cent.

Bright for Petrochemicals

India is the sixth-largest chemical and petrochemical producer in the world. With crude oil prices falling, petrochemical prices are likely to remain low in the medium to long term. Given that China accounts for a third of global petrochemical capacity, many producers are expected to have large inventories, which will also drive down prices. “Most fundamental factors for growth and investments still hold in India - high population with increasing per capita demand for chemicals, shift to Asia as a manufacturing hub, increasing purchasing power and availability of labour. The only question mark is the timing of the recovery in economic activity,” says a recent KPMG report on Covid-19 impact.

India’s pharmaceutical sector, which supplies 20 per cent medicines and one in every three tablets sold across the globe, is going to be a main gainer from this crisis. But a major worry is dependence on China for over 70-80 per cent of the main active pharmaceutical ingredients (APIs) and their intermediates. So, while the world is looking at India to supply Hydroxychloroquine, an old malaria medicine that can be effective in Covid-19 treatment, India has only two integrated manufacturers (Zydus Cadila and Ipca Laboratories) of this drug. “If I want to start an API plant in India, it requires at least one-and-a-half years, and getting environmental clearances is a big issue, whereas in China, you get all clearances quickly, apart from capital and other support infrastructure,” says Arjun Juneja, Joint Managing Director, Mankind Pharma.

But coronavirus has triggered a small change for the better. The government has announced development of three “Bulk Drug Parks” with financial investment of ₹3,000 crore in the next five years and ₹6,940 crore incentives for the next eight years for making critical Key Starting Material (KSM), intermediates and APIs in India. “About 8-10 drug intermediates and KSMs currently imported from China to the tune of 15,000 tonnes have been identified for

MAGAZINE KING



“THE CURRENT CIRCUMSTANCES ARE BRINGING TECHNOLOGIES LIKE **ANALYTICS, AI, ROBOTICS, DRONES, AR/VR TO THE FOREFRONT**”

Sameer Garde
President,
CISCO India & SAARC

“WE ARE LOOKING AT THIRD-PARTY SUPPLY CHAIN COMPANIES **WHICH HAVE A STRONG DIGITAL BACKBONE**”

Srini Vudayagiri
CEO, Unibic



CORONA CAUSES WORLD TO LOOK AT INDIAN PHARMA FOR RELIEF

Hydroxychloroquine (HCQ), an old pharmaceutical molecule, was invented by German multinational Bayer in the 1940s. Most multinationals stopped its production decades back as malaria is no longer prevalent in most developed nations.

India, however makes 80-85 per cent of finished formulations of HCQ, including combination drugs. Majorities are exported to 70-80 countries. It is not a big market, though. India's exports of HCQ in FY19 were only \$51 million and the whole current size of the US market is only \$220 million. Zydus Cadila is the largest player in the US market with 32 per cent market

share by volume and the top 10 players include Dr. Reddy's Lab (10%) and Sun Pharma (7%).

HCQ suddenly gained prominence as some studies found it has strong antiviral effects on the coronavirus infection, which neither has a drug nor a vaccine. This prompted US President Donald Trump to direct the US Food and Drug Administration (FDA) to do away with rigid laws to ensure possible treatments for Covid-19.

Like Zydus, Mumbai-based Ipca Laboratories is a large integrated maker of HCQ and supplies across the world, except to the US. That was because its API unit at Ratlam in



Madhya Pradesh and two formulation facilities were banned for almost five years by the USFDA citing sub-standard quality manufacturing. After Trump's directive, the FDA has given temporary clearance for all these units to facilitate export to the US.

Another leading Indian respiratory drug maker Cipla was given fast-track permission this week by the USFDA to sell Albuterol Sulfate Inhalation Aerosol. Cipla's drug is first-generic of Merck Sharp & Dohme

Corp's Proventil, used to treat severe chest congestion with asthma symptoms, which has a US market of \$2.8 billion. Analysts were expecting approval for Cipla's product only by FY21 and limited sales during the year. Now they estimate FY22 sales of \$50-60 million from the product, an inhaler with the medicine. Another Indian drug maker Lupin also has a filing for Albuterol in the US and is expecting a similar fast-track approval.

use in Covid-19 treatment and we can work with the industry to indigenise them," says Ashwini Kumar Nangia, Director, CSIR-National Chemical Laboratory, Pune.

A related sector – technical textiles – is also going to gain, just like domestic manmade yarns and fabrics used in special application apparel like personal protection equipment (PPE). For India's textile and apparel sector, which contributes 2 per cent to GDP and employs 45 million, prices of imported manmade fibre-based high-value products are expected to rise at least 25-30 per cent over the next two quarters due to slowdown in China. Besides, apparel production will shrink by 18-20 per cent and yarn production by 12-15 per cent during the next six months, says the KPMG report. It also says that for the real estate sector, which is going to face a severe impact due to lack of demand and capital, demand for industrial (logistics and warehousing) construction and data centres is likely to lead to a strong recovery in future. "If global manufacturing giants shift some capacity from China to India, aided by

favourable government policies, it could lead to some construction demand in the manufacturing sector. Long-term outlook for the commercial real estate sector also remains good," says Subodh C. Dixit, Executive Director (Engineering and Construction), Shapoorji Pallonji.

Make-in-India Future for Medical Devices

The crisis has given a lease of life to Indian medical device manufacturers, who are mostly in the MSME sector. "Many of these big companies that have partnered with medical device makers are going to stay back as partners as there is a business opportunity in future. They can not only bring capital to compete with multinationals but also create scale, big basket of products, technological expertise and quality standards for global competition," says Rajiv Nath, Forum Coordinator, Association of Indian Medical Device Industry; and Managing Director of Hindustan Syringes & Medical Devices.

A part of the Make-in-India initiative is focused on plans

to catapult India to among the top five medical devices manufacturing hubs in the world. At present, 75-80 per cent of the ₹1,05,000-crore fragmented medical device industry in India is dominated by multinationals such as GE, J&J, Philips, Wipro, Abbott, Siemens, Baxtar and Fresenius. There are just four domestic manufacturers – Trivitron, Transasia Biomedicals, Hindustan Syringes & Medical Devices and PolyMedicure – with over ₹500 crore revenues a year.

“Other than announcement of medical parks and small incentives, we never got a level-playing field. Almost all the policies or major tenders so far were in their favour and even big hospitals and procurers in India neglected the domestic manufacturers. Those MNCs are not in a position to manufacture for India as they are busy managing crisis in their respective home countries,” says G.S.K. Velu, Chairman and Managing Director, Trivitron – India’s largest medical devices maker.

“Instead of a paltry ₹1-2 crore grant, we require ₹50-100 crore grants and incentives for research and also collaborations with institutions like IITs having precision engineering knowledge and talent,” says Velu.

₹1.05

LAKH CRORE

The medical devices industry in the country; 75-80 per cent of this has been captured by foreign players

Public Health and Biotechnology

Experts say the pandemic will lead to increased public pressure to invest more in health infrastructure, especially primary and secondary care. A Motilal Oswal research report says the Indian government’s health expenditure as percentage to GDP has remained at 1-1.5 per cent, whereas the world average is 7.4 per cent. Similarly, India has one of the least number of doctors per 1,000 population. “India had, over decades, ignored fundamentals like strengthening primary healthcare, producing adequate doctors and setting up public sector hospitals and related infrastructure,” says Muralidharan Nair, a public health expert and Partner and Leader (Health) at EY India. “The old system of primary care and secondary care is broken and needs to be restored,” says R.B. Smarta, Chairman and Managing Director, Interlink, which advises life science companies.

India also has an opportunity in the biotechnology sector, say experts. But lack of biotech infrastructure is a big issue. For example, Serum has been able to develop a vaccine candidate for coronavirus, but is not sure if it can make that in India. “This (vaccine candidate) will have to be handled under BSL 3 (biosafety level) conditions, which is basically a very high containment level, and I don’t know how many facilities in the world have high volume manufacturing in BSL 3. Even if you have the vaccine, the main challenge will be to manufacture it in large volumes,” says Adar Poonawala, CEO, Serum Institute of India.

India will also have to develop a scientific community that can market its IPs, encourage entrepreneur-scientists and create infrastructure to make India a power house in the biomedical sector, Kiran Majumdar Shah, Founder and Chairperson, Biocon, has written in a blog.

Muralidharan Nair says the Indian pharma industry should focus on developing new molecules rather than using chemistry skills to make copycat generic drugs for short-term profits. “With bioengineering and advanced computing coming together, synthetic biology is going to have wide applications in infectious diseases, agriculture, water, air. This is the time to be in biotech,” says Ashok Trivedi, Founder and Trustee, Ashoka University; and Managing Partner of SWAT Capital, who will invest ₹100 crore to launch Trivedi School of Biosciences with focus on synthetic biology, data science, biodiversity and ecology.

The post-coronavirus phase might be a new dawn for several large chunks of India Inc, it seems. **BT**



“ONE CAN’T REALLY PREDICT THE FUTURE AT THIS POINT”

Sandeep Kataria
CEO, Bata India

“EVEN IF YOU HAVE THE VACCINE, THE MAIN CHALLENGE WILL BE TO MANUFACTURE IT IN LARGE VOLUMES”

Adar Poonawala
CEO, Serum Institute of India



@pb_pbjayan

FIGHTING THE FEAR FACTOR

COVER STORY

CORPORATE

India Inc. is staring at severe operational and financial troubles. This is how it is planning to weather the storm

BY NEVIN JOHN

ILLUSTRATION BY RAJ VERMA

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he lockdown of factories and halting of construction work due to spread of coronavirus has terrified A.M. Naik, Chairman, Larsen and Toubro (L&T). He has never faced such a crisis in his 55-year-long career. This time, the company has to take care of the 1.6 lakh contract workers at sites across India and Middle East even though it knows its earnings during the period will be negligible.

It knows project executions and payments will be delayed. Moreover, the companies will stop planning new capacities, and that will affect the construction giant's cash flows too. The future is under a cloud, and a pretty thick one at that.

The auto industry, which was struggling even before due to economic slowdown, is facing more trouble. R.C. Bhargava, Chairman of Maruti Suzuki, is right now worried about how fast India can contain the virus outbreak. "The plants have closed operations. We will be able to

assess losses and count on demand only after restarting operations,” he says. Again, Maruti is retaining with full pay its entire workforce. Its component suppliers and dealers are doing the same. Bhargava’s main concern when Maruti’s plants open is dent in confidence of customers.

If these two top executives, at two of India’s most respected companies, are finding it hard to clearly plan a future beyond the current lockdown, for others, things must be worse. But look they must. That is why, when-

ment to deliver stuck projects and create demand.

All this after they get employees back to work and ensure their safety, tie up fuel linkages again and get raw material supply chains up and running once more. The challenges are several, but solutions are limited.

Tackling Cash Flows

That demand has collapsed and will take many quarters to come back is a given. This will make it hard for companies to pay off loans. “We are staring at an unpredictable



THE ROADBLOCKS AND POSSIBLE SOLUTIONS

PROBLEM 1:

Factories are shut. When they reopen, they should be able to ensure safety of lakhs of workers. They will not be able to operate at full capacity due to restrictions on number of workers inside factories

SOLUTION:

Factories and industrial complexes need to be quarantined for the time being and food and medicines supplied to workers. Production can start with staggered shifts and remote employees

PROBLEM 2:

Most infrastructure and manufacturing companies such as Tata Steel, Reliance Industries, JSW Steel, Vodafone Idea and Tata Motors have huge debts. Since cash flow has fallen, it will be tough for them to service their loans

SOLUTION:

They will have to cut costs — raw material, employee and fuel — drastically to maintain cash flows. Suspend expansions, acquisitions and diversifications. Conserve cash on books. The RBI should allow banks to restructure loans based on sector.

PROBLEM 3:

Lack of demand. No buyers for houses, cars and other non-essential items. This is affecting manufacturing and commodity companies

SOLUTION:

The government will have to provide liquidity to consumers in the form of tax waivers, subsidies and rural development and job guarantee schemes. The companies should come up with low-cost products that can sell even in poor demand conditions

ever the lockdown ends, Indian corporates are gearing up to restart plants and projects while, at the same time, planning for the worst. But it will not be easy. Some, like JSW Steel — which is still operating blast furnaces at minimal levels as switching off will lead to cooling and hardening of residue at the bottom — will have to work out plans to keep paying off its Rs 50,000 crore debts on time in a down market while restoring supply chains for raw materials and distribution chain of finished products. While reviving the collapsed demand will remain the requirement of manufacturers, players in real estate will be hoping for liquidity injection from the govern-

future. Businesses are shut and capacity additions suspended. Coronavirus has brought the largest economies of the world to their knees. Indian businesses are not so strong to battle it out,” says A.M. Naik, who has steered L&T through multiple crises in the past. L&T has consolidated debt of more than a lakh crore, including that of finance arm. Reports in early March said the company was planning to reduce it to the extent of ₹30,000 crore by selling assets.

Harsh Goenka, Chairman, RPG Enterprises, says the entire business cycle, including sourcing, value addition and its eventual conversion into cash, has gone into a

freeze for most sectors. “What we are, therefore, facing is tightening of liquidity, and companies have to manage it astutely,” he says.

Some say the companies cannot do this on their own. “The RBI should make provisions and allow one-time restructuring of all loans depending on future cash flows of respective companies,” says Hemant Kanoria, Chairman, Srei Infrastructure Finance.

Until the downtrend reverses, companies will need to tighten their belts by reducing operational costs —

PROBLEM 4:

Movement of finished products from factories, especially between states, has become difficult. Dealer and sub-dealer networks have been broken down in many cases because of shortage of labourers

SOLUTION:

Companies can bring back some dealers as well as labourers by offering medical insurance and safety gears. Coordinate with government agencies for smooth transport of goods. Local governments should provide support to operation of plants and logistics.

PROBLEM 5:

No new orders at engineering and construction companies. Until January, at least 60 per cent orders of infrastructure companies were coming from the government. The medical emergency is expected to empty government coffers in the short to medium term. The companies are unlikely to get pending payments for work done.

SOLUTION:

Retain the workforce with minimum costs. Conserve cash. Shift focus from present cash flow to future cash flow. Look at smaller projects. Use the spare time for innovation

including employee, raw material and fuel costs — and putting on hold all expansions, diversifications and acquisitions.

Balancing Balance Sheets

Some of India’s most debt-laden companies are Reliance Industries (₹3.07 lakh crore), Tata Motors (₹1.29 lakh crore), Vodafone Idea (₹1.15 lakh crore) and Tata Steel (₹1.1 lakh crore). Except for Reliance, which has ₹1.5 lakh crore cash reserves, others have limited surplus.

Take Tata Motors, which had a gross debt of ₹1.29 lakh crore in December. It includes passenger and com-



“WE ARE STARING AT AN UNPREDICTABLE FUTURE. CORONAVIRUS HAS BROUGHT THE LARGEST ECONOMIES TO THEIR KNEES. INDIAN BUSINESSES ARE NOT STRONG ENOUGH TO BATTLE IT ALONE”

A.M. Naik, Chairman, L&T

“SALES FOR THE FIRST QUARTER ARE GOING TO BE NEG-LIGIBLE FOR MOST MANUFACTURING OPERATIONS... CASH IS THE LIFELINE AND ALL MEASURES THAT ENABLE CONSERVATION OF CASH WILL BE CRITICAL”



Harsh Goenka
Chairman, RPG Enterprises

mercial vehicle manufacturing business in India, Jaguar Land Rover (JLR) and auto financing subsidiary Tata Motors Finance Ltd. The company’s vehicle sales fell by one-sixth to 12,924 units in March from 74,679 units in the same month the previous year. Can the company meet its loan repayment commitments amid such crash in sales? Holding company Tata Sons had injected ₹6,500 crore in the automaker last year to increase investor confidence. But that may not be enough.

Another crisis may be looming over Vodafone Idea, which has to pay the government adjusted gross revenue dues of ₹53,000 crore. This is in addition to the gross debt of ₹1.15 lakh crore. The struggling telecom player posted a ₹6,400 crore loss in the third quarter. Analysts expect that a sharp decline in subscriber base will lead to losses in the fourth quarter too. Can it meet its repayment obligations if the business continues to be down?

Giving partial relief, the RBI recently allowed financial institutions to grant three months moratorium on interest on term and working capital loans of corporates, which are struggling with liquidity. However, Kanoria says the banks are not clear about the decision. “Some are giving the extension but others are not. The stimulus decisions should not be half-hearted. The present circumstances are beyond anyone’s control.”

The economy has been slowing down for the last two-three years. Coronavirus has come as a debilitating blow. Industry is looking for solutions from the government and banks to avoid a collapse but the banking sector is already reeling under non-performing assets. If borrowers don't have cash to repay their loans, banks and other financial institutions will be in deeper trouble. It is here that the RBI's role becomes very important. In real estate, for instance, Niranjani Hiranandani, Founder and Managing Director of Mumbai-based real estate player Hiranandani Group and National President of Assocham, says financial institutions need to support the recovery process at two levels. "First, help the developer overcome the liquidity crisis. Second, encourage the potential buyer by providing new loan facilities and flexible repayment options." He says the lockdown will have at least 20 per cent impact on real estate off-take. "How much time it will take for recovery and whether it will be a 'return to normalcy' or a 'new normal' – these are questions where one hopes for the best," he adds.

A.M. Naik of L&T says new capacity additions and infrastructure creation will not happen in the near future. "It will be a huge bottleneck in the country's economic growth," he says. Lack of new orders will affect engineering and construction companies. Until January, at least 60 per cent orders for infrastructure companies were coming from the government. The medical emergency is expected to empty the exchequer in short and medium term and lead to reduction in public expenditure. Another problem will be delays in payments for executed projects.

To get past the crisis, the companies will have to retain workforce with minimum costs and conserve liquidity. Infrastructure companies will have to look at smaller projects to keep going, besides using the time for innovations in engineering. Goenka of RPG says liquidity is the lifeline of a business and all measures that enable conservation of cash within businesses will be critical for survival.

The Missing Customer

A major worry for manufacturers is bringing the buyer

back to the market. Will the lockdown change their willingness to spend? "Getting customers back to sales offices will require a new format of communication. These will need to be structured to work at a new, totally different level, something very different from the past," says Hiranandani. The companies, at least in the initial few months, will have to offer products at heavy discounts. They may even have to come up with newer low-cost products to attract consumers.

Raamdeo Agrawal, Chairman, Motilal Oswal Financial Services, says companies in essential sectors can resume normal operations within 15-20 days after the lockdown is withdrawn. But discretionary businesses will face trouble. "Some non-essential businesses such as automobile and real estate will see deferment of purchases. But premium businesses like airline, hospitality and luxury homes will vanish," he says.

When a customer is unable to reach the construction site or sales office, this effectively means almost zero demand, says Hiranandani. "Sales and marketing activities are happening across digital, online and telephony based platforms with social media getting a larger share of the communication roll-out, but it is not the same as was the case before the pandemic struck," he says. "Getting customers back to sales offices will require a new format of communication. It will need to be structured to work at a new, totally different level, something very different from the past," says Hiranandani, who worries about the possibility of property buyers turning into 'fence-sitters'.

The poor demand in automobile and real estate businesses will trickle down to companies in metal, cement and power sectors too. Airline and hospitality industries, which largely depend on tourists and corporate travelers, will shrink substantially, at least for the next two quarters. Players in sectors such as consumer durables and textiles where demand is discretionary will also face a lot of hardship. "In terms of losses, the fact that a lot of fixed costs are continuing means there will be under-recovery. Sales revenues for the first quarter are going to be negligible for most manufacturing operations," says Harsh Goenka.



Industries say the government will have to provide liquidity to consumers in the form of tax waivers, subsidies and additional funds for rural development and job guarantee schemes if it wants to push up demand.

Bearing Costs

Days before the lockdown in Mumbai, migrant workers started leaving industrial townships. This has paralysed operation of factories that produce essential items. The Maharashtra government finally had to send senior officials to these townships to convince workers to join back. In one incident, Raigad District Magistrate Nidhi Chaudhary addressed contract workers at JSW Steel's factory in the district and asked them to get back to work since they could not return to their hometowns. About 340 units in the district have been working partly under the exemption given by the government.

Besides such issues, manufacturing companies are facing other serious operational problems. L&T is spending ₹500 crore a month to provide food and medical assistance to its 1,60,000 contract labourers. The Tata group is paying full salaries to temporary workers of its steel, power and automobile companies. Continuing this beyond a couple of months may be unsustainable.

Operationally, managements are getting ready to deal with multiple challenges post the lockdown. The first priority is to ensure safety of workers. They will still not be able to operate at full capacity due to restrictions on number of workers inside factories. Camps of workers will need to be isolated. And they will have to work in staggered shifts with optimum distancing from each other.

Managing logistics will also be tough as some states may continue with the lockdown. Dealer and sub-dealer networks have been broken



“A MINIMUM 20 PERCENT IMPACT ON OFF-TAKE WILL DEFINITELY BE THE OUTCOME POST THE 21 DAYS... FINANCIAL INSTITUTIONS SHOULD HELP DEVELOPERS OVERCOME LIQUIDITY CRISIS AND ENCOURAGE POTENTIAL BUYERS.”

Niranjn Hiranandani,
Co-founder and MD,
Hiranandani Group



“THE GOVERNMENT SHOULD COME UP WITH INDUSTRY SPECIFIC PACKAGES TO OVERCOME THE CRISIS. THE RBI SHOULD ALLOW ONE-TIME RESTRUCTURING OF LOANS OF COMPANIES BASED ON FUTURE CASH FLOWS.”

Hemant Kanoria
Chairman, Srei
Infrastructure Finance

in many cases because of shortage of labourers. Bringing back a portion of dealers as well as labourers by offering medical insurance and safety gears will be the key. So will be the coordination with government agencies for smooth transport of goods.

Preparing Ground

Whenever the nationwide lockdown ends, manufacturing companies will restart full-stream production. They are in touch with state governments for smooth evacuation of products from factories. Tata Steel has stepped up measures to reduce risk to employees as well as communities that are around its plants.

Travel restrictions have been implemented and majority of employees have been asked to work from home. Additional resources are being put in place to improve hygiene and enforce strict social distancing for employees and other stakeholders who have to attend to essential activity at workplace. Tata Steel has taken several initiatives to ensure that the operations are in a state of readiness. Appropriate protocols have been put in place to minimise the presence of employees at their workplace, including at their steel making hubs and mining operations.

Most companies in essential sectors have been operating in staggered shifts with minimum workers since the lockdown was announced. FMCG companies have been operating at almost half their capacities. JSW Steel says it is preparing to start operations at all locations. The refinery and petrochemical complex of Reliance in Jamnagar will also scale back production to normalcy soon. The auto companies based out of Pune have also asked their workers to be ready to come back. “Restarting work with tens of thousands of workers is going to be a critical task,” says an official with Reliance. **BT**

@nevinjl

COVER STORY

INSURANCE

THE VIRUS COVER

W

hen the nervous global reinsurers pulled out from offering terrorism insurance cover after the 9/11 terror attack in the US, the general insurance industry in India came together with an innovative idea of creating a 'Terrorism Risk Insurance Pool' in the early years of the 2000 decade. Individual insurers started offering terrorism cover as one of the add-ons to existing property insurance policies. Over the years, India has built a capacity of ₹2,000 crore under the pool to cover terrorist attack on business establishments like 26/11 when the iconic Taj Mahal Palace Hotel and the Trident suffered heavy losses to property and business in Mumbai.



More recently, the industry created yet another pool - Nuclear Insurance Pool - for nuclear operators and suppliers to cover corporate liability or losses arising from a nuclear accident at plants. This five-year-old nuclear pool has already built a capacity of ₹1,500 crore, which gives domestic insurance companies comfort when global reinsurance is not easily available. The Bhopal gas tragedy of December 1984 still sends shivers down the spine. These kinds of events may happen once in a decade or century, but they create havoc with life and busi-

The coronavirus pandemic has created the need for a 'Virus Insurance Pool' on the lines of terrorism and nuclear pools

BY ANAND ADHIKARI
ILLUSTRATION BY RAJ VERMA

ness. The current coronavirus crisis is a new addition to the insurance lexicon.

Pandemic Cover for Businesses

Can something like the terrorism or nuclear pool be made for pandemics in India? The outbreak of coronavirus and the subsequent lockdown has created a need for insuring a business against an epidemic or a pandemic. For instance, ever since virus outbreaks like SARS and Ebola, the Wimbledon Grand Slam sports event is always insured for any disruption or cancellation due to an epidemic or pandemic.

"The virus outbreaks are no longer once in a century kind anymore. In the last decade, we have seen each virus being more dangerous than the previous one. They have taken the shape of global pandemic," says Tapan Singhel, MD and CEO of Bajaj Allianz General Insurance, and who is a supporter of creating a pandemic pool to cover business losses.

A trade body recently wrote to the finance ministry requesting that general insurance companies be mandated to introduce "disruption due to coronavirus" as an additional cover to existing 'Fire and Material Damage' policies. But without support from global reinsurance companies, no individual insurance company has the capacity to offer such a cover.

The reinsurance support is just not there. And there is a reason for it.

Global reinsurers became very cautious post the SARS outbreak and the losses they incurred in some of the cases. A Hong Kong-based hospitality chain, Mandarin Oriental, walked away with a \$16 million (@₹75 about ₹120 crore) claim for business interruption losses from the SARS outbreak in 2003. Since then, virus and bacterial infection exclusions have become a norm in insurance policies globally.

This is why many domestic insurers say that the pool approach is the only way out as no global reinsurer is ready to provide reinsurance against a pandemic. (Reinsurance is a cover or protection that an operating insurance company purchases from a reinsurer to derisk its liability in case of a major claim.) Creating a pool will almost be like reinsurance. "We can create capacity under a pandemic pool with government support for future by starting with a limited cover initially," suggests Sanjay Datta, Head-Underwriting and Claims, ICICI Lombard General Insurance. He says premiums could be collected each year and a reserve set aside for a crisis during which insurers would pay up to a limited amount and the state taking over the rest.

Some say that the government should make the pandemic cover mandatory for businesses. Not only that, the government should also pitch in with ₹5,000-10,000 crore to a pool every year just the way it supports crop insurance and medical health insurance under Ayushman Bharat.

A pool for epidemics or pandemics would be in the interest of the government. Currently, globally, governments are pumping in trillions of dollars to save their economies and economy. The coronavirus pandemic is expected to push many economies into recession. Back home, the government has announced a ₹1.7 lakh crore-fiscal stimulus with RBI extending a liquidity support of over ₹3.74 lakh crore.

Ironing Out the Details

Should a pandemic insurance pool be formed, the big question is what all it will cover. "The cover should be for a

THE PANDEMIC POOL

In future, an insurance pool can be formed to offer cover for pandemics

- **Government** takes initiative, puts in **initial capital**
- All **general insurance companies** come together
- **GIC Re** becomes the nodal agency
- A **uniform premium rate** is offered for pandemic cover
- Pandemic pool **offered as an add-on** to property insurance (optional for businesses)
- GIC Re can **select another** global reinsurer
- **Claim settlement** through the pool

MEETING THE DEMAND

Steps that will help bridge the insurance gap caused by the coronavirus pandemic

COVER STORY INSURANCE

Make a pandemic insurance pool to provide cover for business disruption

Longer-term health cover needed. Short-term cover is available, but is temporary in nature

Existing health insurance covers coronavirus hospitalisation, but widespread cases can increase losses

Insurers need regulatory forbearance on the lines of RBI's relief to banks. These should include:

- Relaxation in solvency ratio
- Relief from mark to market losses

- Postponing rural obligations for a year

worldwide pandemic and not for a local epidemic in some geographies,” suggest Datta of ICICI Lombard. The policy should cover loss of profits for a certain fixed period. It cannot be for a long period, says another.

A critical component would be the demand for such a policy. “It will be priced differently from the regular premium. Will people be ready to pay a higher premium for an add-on pandemic cover?” asks Shreeraj Deshpande, Chief Operating Officer at Future Generali India Insurance. At present, premium collection under property insurance, which covers physical damage by way of fire, natural calamities and act of terror, is roughly ₹12,000 crore. People tend to miscalculate probability. Lack of awareness or cognizance of the risk is why only a few people buy home insurance.

Individual Cover Against Virus Attacks

General insurance doesn't work on the principle of offering fire insurance when a building is already on fire or a pandemic cover when the outbreak has reached the country's shore. Insurance had to be bought for a future emergency or risk. However, insurers have come forward and offered a limited coronavirus cover. “These are small-ticket income protection products to help those who don't have a health insurance policy,” says Deshpande of Future Generali. For instance, Star Health and Allied Insurance has piloted a coronavirus policy with sum assured options of ₹21,000 and ₹42,000 for premiums as low as ₹459 and ₹918, respectively. So unlike a comprehensive health insurance policy which compensates for actual hospitalisation expenses, these policies offer a fixed sum assured. The sum assured may seem insignificant but to be fair to insurers, it is very difficult to assess the number of coronavirus cases when the pandemic is spreading in India and globally.

There is also a lingering risk to insurance companies from the liability in comprehensive health insurance policies. There is no reinsurance cover for coronavirus cover while domestic insurance companies are paying for related hospitalisation claims. In some cases, the claims are in lakhs. There will be a huge liability on general insurance companies if coronavirus outbreak blows out of proportion in India, warn experts. The size of the current premium collection in health policies is over ₹50,000 crore annually, up from almost ₹42,000 crore in FY18.

According to rating agency ICRA, if health insurance claims increase by 30-40 per cent, the total claim amount could be ₹6,000-8,000 crore higher than last year. In addition to the threat of claims increasing due to coronavirus-related hospitalisation, the value of insurers' investment portfolio has declined because of equity markets crash and fall in the prices of government securities. The way banks got regulatory forbearance from the banking regulator, the general insurance industry is looking up to the insurance regulator for some relief. This could be in terms of solvency requirement, mark to market losses and reporting delays. The focus, however, is on new opportunities to cover risk and create awareness about insuring businesses.**BT**



“IN THE LAST DECADE, EACH VIRUS HAS BEEN MORE DANGEROUS THAN THE PREVIOUS. THEY HAVE TAKEN THE SHAPE OF GLOBAL PANDEMIC”

Tapan Singhel
MD & CEO, Bajaj Allianz General Insurance

“WILL PEOPLE BE READY TO PAY HIGHER PREMIUM FOR AN ADD-ON PANDEMIC COVER? IT WILL BE PRICED DIFFERENTLY”

Shreeraj Deshpande
COO, Future Generali India Insurance



@anandadhikari



RIGHT APPROACH

Avoid hasty decision-making; wait till the end of the lockdown or even end of the month, if possible. Instead of taking piecemeal calls, take decisions that are final

Before taking any tough decision, get buy-in from the entire organisation. Involve more people in the decision; ask for suggestions on where the company can save on costs

Go overboard with communication. Explain the rationale and the situation the business is in, not just through an email, but also personal meetings or a townhall

While the communication is not always pleasant, do not stop employee engagement activities that can be done digitally so that camaraderie in teams remains

Walk the talk. Leaders should be the first ones to take the brunt of a pay-cut. That puts out the message that they are trying hard to look out for the junior members

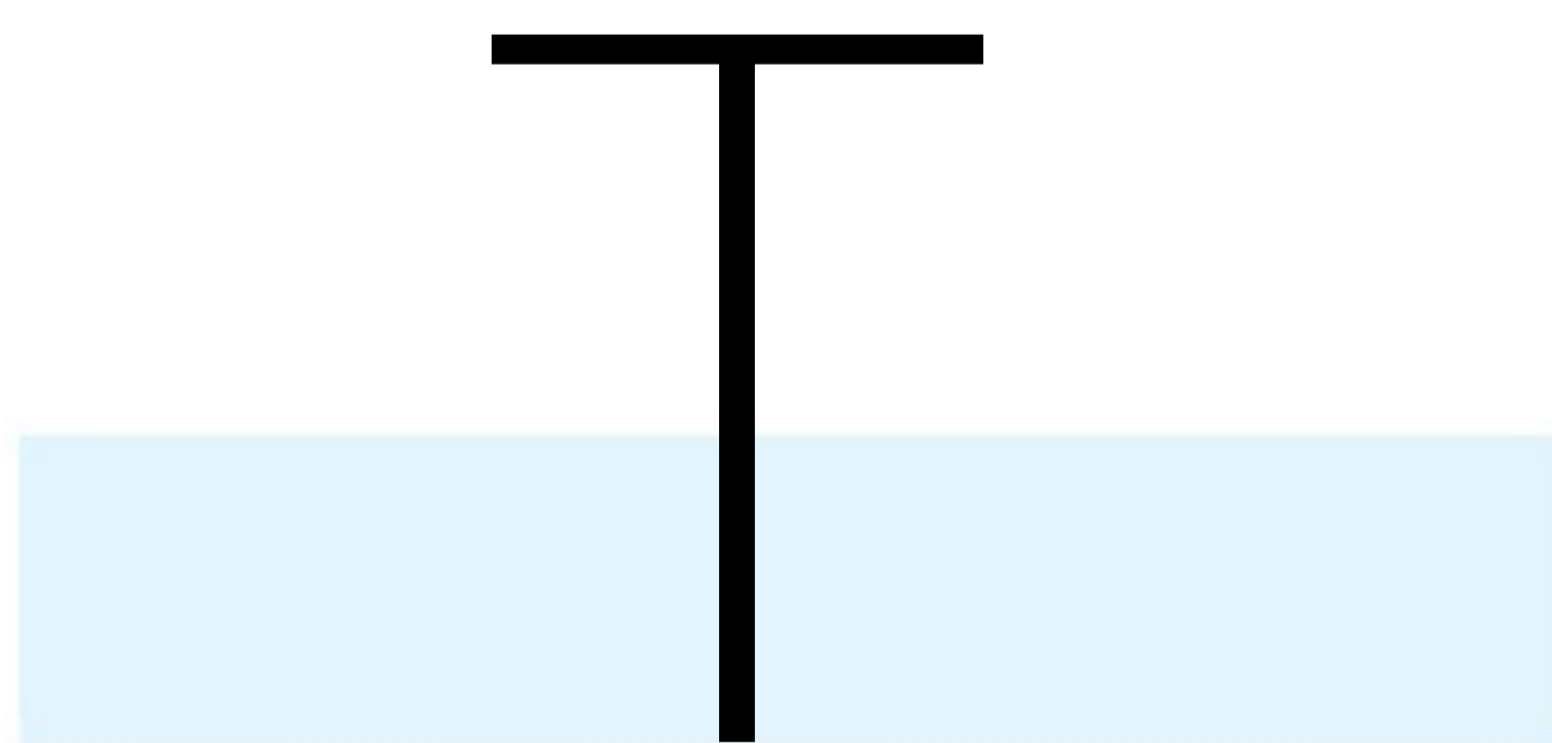
BEING REALISTIC

A humanitarian crisis calls for humane HR policies to tide over what looks like the “new normal” post-lockdown

BY AJITA SHASHIDHAR and
SONAL KHETARPAL
ILLUSTRATION BY RAJ VERMA

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MAGAZINE KING



he century-old Hindustan Unilever’s (HUL) people policies have over the years become industry standards. Not only does the company take pride in giving India Inc its best leaders, its various employee-friendly policies have made the FMCG major one of the best Indian companies to work for. HUL has pledged ₹100 crore to help India fight the pandemic. From donating two crore cakes of Lifebuoy soap and handwash

to setting up isolation beds and working with municipal corporations across the country, the company is leaving no stone unturned to fight the pandemic. Anuradha Razdan, Executive Director (Human Resources), HUL, says that though its 18,000-strong workforce has expressed pride in being part of a company that cares for the society, in an uncertain environment like this, pay-cuts are there in everybody’s mind.

With over 70 per cent of HUL’s revenue coming from the sale of essentials, a major disruption in its business is unlikely. But business disruptions caused by the outbreak across the country and sectors such as aviation and hospitality announcing large-scale pay-cuts and job losses, have created an environment of uncertainty among employees everywhere. A recent CMIE report says that as of last week of March, the rate of unemployment in India is 23.8 per cent, with urban unemployment at a staggering 30.9 per cent. “We are continuously communicating to our employees that while this is not ‘business as usual’ we are committed to do what’s right for both employees and the business. Our focus is to ensure that our company is healthy, viable and growth-focused. In fact, we are proactively honouring our commitments – as of April 1, 100 summer interns have joined the company,” says Razdan.

Prepare for the worst and hope for the best, has been the narrative of companies across India Inc, even in sectors such as retail and hospitality, which have come to a grinding halt. Companies across the board may be thinking about scrapping increments or deferring salaries, about the leadership team taking pay-cuts and redeploying their existing talent pool, but most are careful not to talk about job losses or pay-cuts, at least for the time being. There are of course exceptions such as Indigo Airlines, SpiceJet and GoAir, which have announced 10-50 per cent pay-cuts across the board and even layoffs, but as of now it is mostly the senior management of most companies that are either forgoing salary for a few months or taking a steep pay-cut.

**23.8%**(as of last week of March)
Overall
Unemployment Rate**30.9%**Urban
Unemployment**39%**Drop in Labour
participation

Source: CMIE

9mnFall in labour
force in March
from January

MakeMyTrip founders Deep Kalra and Rajesh Magow have written to their employees that they would be foregoing their salaries for the next few months, while the senior leadership team has also offered to sacrifice 50 per cent of their pay. Similarly, OYO Rooms Founder Ritesh Agrawal has announced that he would forgo his salary for the rest of the year and that the senior leadership will take a minimum of 25 per cent pay-cut. Other than India, the company has also put thousands of its employees in the US and the UK on leave and on furlough for up to three months.

Stores of value fashion retailer V-Mart have been shut for over three weeks since the lockdown began. Lalit Agrawal, Chairman of the company, says his message to his 7,600 employees has been to take care of themselves and their families. "Around 85 per cent of my workforce works on the shop floor. On an average they earn ₹10,000 per month. I have announced that there will be no pay-cuts for them. While I won't be taking home a salary for the next three months, I will try to protect my senior and middle managements' salaries for as long as I can. They may be working from home, but they are putting in a lot of effort. I don't want to penalise them."

The challenges that businesses are facing are unprecedented. "At the same time, standing with employees is vital and an acknowledgement of how critical they are to the vitality of an enterprise," says Amitav Mukherji, Head of Corporate Human Resources at FMCG major ITC. "My advice would be for all of us to make sacrifices in the spirit of collective responsibility while

ensuring there is minimal or no long-lasting impact on employees or businesses. We have to have faith that the situation will return to normalcy though it will take time. In the meanwhile, we have to get accustomed to a new reality and accept that our ways of working are up for a change," he adds.

Being Transparent

At a time when people are getting an overdose of bad news on the employment front, the least that employees expect from their employers is transparency. Razdan of HUL, says that all the businesses in her company have regular virtual meetings where the leadership team gives updates on the health of the business. "These meetings are extremely effective, outcome-focused and at the same time help to create empathy and connectedness."

Communication across channels is key to keeping all employees informed. "Our CMD (Ramesh Ramanathan) writes detailed mails to all employees, laying out how we are visualising the future, what is happening, how is the organisation reacting. We have also created WhatsApp groups for people who are at home and might not have email access at home, so, communication is happening across different channels," adds Jacob Peter, CHRO, Sterling Holiday Resorts.

Sandeep Aggarwal, Founder and CEO of online automobile marketplace, Droom, has been having regular virtual townhalls with his employees ever since his business has shut down. The townhall in the first

WHAT ARE COMPANIES DOING?

Many founders of companies have announced that they will not take salaries for a few months or even a year

Senior management to take maximum pay-cuts, followed by middle management

Increments may not be announced, not only as an outcome of the economic scenario, but also as a way to save jobs

No decision yet by some; they want to see what the situation is in 6-9 months

week of April was followed by a five minute-long WhatsApp voice message in which he announced a pay-cut and also talked about his vision for the company. “Today, I want to ask each one of you for a sacrifice. From April 1, we will all take a 15 per cent pay-cut. This will be across all teams, functions, all levels... We are always nicely funded with a one-year runway. With all the measures we are taking, we are extending our runway to two years. That will also mean money will never be the reason Droom will be out of business. I am very sorry for this sacrifice that we are asking each one of you to make but this is a temporary measure and as soon as things stabilise, everything will be okay,” Aggarwal said in the voice message.

Whatever be the content of the message, HR experts say the need of the hour is to be transparent rather than beat around the bush. “The leadership teams need to acknowledge that their industry is going through challenges and disclose their plans to employees. Just saying that they are in charge of the situation may not fly well,” says Aditya Mishra, CEO of HR services firm, CIEL.

Usually, this time of the year sees increments. Therefore, communication on this is also needed. Ashwajit Singh, MD of development sector consulting company, IPE Global, says, “We don’t plan to lay off people, but we are telling them how difficult the business environment is. Though we have initiated the appraisal cycle, we have told our employees that there is no commitment on increments.”

Wait and Watch

Since it is not clear what the coming weeks and months will hold, no one wants to specify if there will indeed be pay and job cuts. “If you react too quickly, then you are seen as a bad employer. If you are too late, then you are not conserving cash. So, the question is what is the appropriate time to do it and what is the balance between the two,” says Navnit Singh, CMD

PAY-CUTS EXPECTED



15-20%
Travel and
Hospitality

15-20%
Retail



20-25%
Real Estate

5-10%
Automobiles



5-10%
FMCG

Source: Industry estimates

of consulting firm Korn Ferry India. Most companies are waiting to see for how long the lockdown continues and if it will be extended till end of April, and whether containment efforts will work or not. “Companies will also be in wait-and-watch mode because they want to see what the government is doing from an economic standpoint and whether it will give a stimulus to industry or not,” adds Singh.

Several research reports indicate that the IT sector’s pain will continue well into the first half of FY21. But “lay-offs, appraisals and salary cuts are not a point of discussion yet”, said an HR executive of a leading IT firm requesting anonymity. A report Emkay Research warns that while the situation is still evolving, “we see a hit to client decision-making/new project starts, at least in H1FY21, if not longer”. Industry experts say that companies may take talent-related calls later in the first quarter of FY21.

Some companies are taking a more forward looking approach and are making business plans for the next few quarters. Kavi Mishra, CEO of apparel company House of Anita Dongre, says they have started work on the next collection. “We are not talking about pay-cuts. Our focus now is on how to hit the ground running once the lockdown is lifted. In the new normal, our focus on e-commerce has to increase, so we are trying to figure out how to sell more fresh merchandise online at full price.”

McDonald’s India is using the lockdown to train its employees. Seema Arora Nambiar, Senior Vice-President (Menu, Marketing and People Resource) for the company’s West and South regions, says, “For an organisation like McDonald’s, which mostly

employs young first-jobbers, it’s imperative to keep employee morale up and make sure that these young people stay home and at the same time remain motivated and productively engaged. We have therefore introduced a unique ‘Work From Home’ programme. The objective is to help them use the free time constructively and ensure

continued learning and upskilling for a strong comeback as soon as normalcy resumes.”

Anubhav Gupta, Director, Deloitte India, says that companies are using the lockdown to find ways of conserving cash. “There are other strategies to conserve cash like better working capital management through better cash collection, revisiting vendor payment philosophies, avoiding cash discounts and cash-backs, etc. Whether pay-cut is a last resort or not depends on what options one is left with and also one’s overall positioning on compensation vis-à-vis the market.”

Preparing for the Worst

With the lockdown likely to be extended by a few more weeks, large-scale pay-cuts and loss of employment seem inevitable. “The more senior you are, the greater brunt you will have to bear,” says K. Sudarshan, Managing Partner, EMA Partners. He says that while many companies are not formally stating the worst, they have activated the message through informal channels.

Corporate India has not seen this kind of situation before, says Suresh Raina, Managing Partner, Hunt Partners. “There is an expectation that it will be a V-shaped recovery (and not U-shaped because that would mean a prolonged recession), and so we will be out of this situation in 6-9 months. Most companies are trying survival strategies for these 6-9 months and then plan to get back to normal. But, if that doesn’t happen, companies will not be able to manage with 20-30 per cent pay-cuts, there will have to be layoffs.”

Like Droom, many companies have already embarked upon the journey of reducing salaries. Bangalore-based self-drive car rental company ZoomCar has announced a three-month salary deferment for some. “There will not be pay-cuts for employees. I will defer my entire salary until June and the senior leaders (VP and above) will defer by 50 per cent, the next level will defer by 25 per cent and the junior-most employees will defer by 10 per cent until June. This is not a salary cut, but simply a temporary partial deferment. The ground staff is the back-



“WHILE THIS IS NOT ‘BUSINESS AS USUAL’ WE ARE COMMITTED TO DO WHAT’S RIGHT FOR BOTH EMPLOYEES AND THE BUSINESS”

Anuradha Razdan
Executive Director (HR), HUL



“FROM APRIL 1, WE WILL ALL TAKE A 15 PER CENT PAY-CUT. THIS WILL BE ACROSS ALL TEAMS, FUNCTIONS, ALL LEVELS”

Sandeep Aggarwal
Founder and CEO, Droom Technology, in a WhatsApp message to employees

bone of our business and their safety and wellbeing are a priority for us. Hence, we will not defer any salary for fleet executives and customer care executives given their present economic realities,” says Greg Moran, CEO and Co-founder, ZoomCar.

Similarly, digital film distribution company, UFO Moviez, has announced that while none of its 1,300-odd employees would be laid off, the leadership team, which has 28 people, would be taking a 50-60 per cent pay-cut, and the middle management would take a 10 per cent cut in salaries. “It will take at least 6-9 months for the cinemas to regain their glory, therefore salary cuts became inevitable in order to stay afloat,” says Kapil Agarwal, Joint MD of UFO Moviez.

Vishwanath P.S., CFO of staffing company Randstad India is hoping that the government will take measures that could help companies save costs. “The Payment of Bonus Act mandates 8 per cent bonus to be paid to employees (up to salary bracket of ₹21,000) irrespective of whether a company makes money or not. If there is clarity that the employee can forgo the bonus for the next one year, as long as his or her job is saved, it will be immensely useful for companies.”

Since the near future is uncertain, some employers are not taking a call. “We have not made any decision yet because we don’t know when the lockdown will be over. Once the end is clear, we will have a better understanding of its impact and then we will take a call,” says Vishal Kamat, CEO of Kamat Hotels. “If we decide now, it might be an ad-hoc decision that we might have to revisit again very soon.”

As more companies try to come to terms with the new normal, many em-

ployee-related announcements are expected in the coming days. That the lockdown will have a huge economic impact is inevitable but how companies respond to it and make preparations remains to be seen. **BT**

With inputs from Rukmini Rao

@ajitashashidhar, @sonalkhetarpal7



EQUITY GRANTS WILL NEED A NEW PLAN

COVER STORY
COLUMN

Companies need to consider their performance and stock market uncertainty while choosing

BY ANUBHAV GUPTA

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or most Indian companies, the equity grants come at the end of the fiscal year after the annual performance of the organisation and evaluation of executives. With challenges posed by coronavirus along with other factors, such as oil prices (down by about 66 per cent in past one year) and depreciation of rupee, stock prices across industry clusters have reacted sharply to the uncertainty. The key indices are down 15-50 per cent from April 2019 levels.

In these circumstances, how should the Nomination and Remuneration Committees approach equity grants?

There are broadly two types of grant structures that exist for companies that do this annually or have a grant cycle of more than one year. Given the present situation, these grant cycles might have to be treated somewhat differently.

If the companies have an annual grant structure and the cycle is coming up, the following are some alternatives:

Grant as planned: If the equity compensation plan has been implemented to ensure that executives swim

with shareholders, the shareholders should be okay with honouring the compensation commitment.

Use three-six-month average share price: This perhaps can be used if the assessment is that the industry and the company will revive in the near term (3-6 months) and there is a concern that executives may be overtly rewarded in the case of recovery. For companies that use stock options, the exercise price could be the average of past 3-6 months (premium priced options). For companies that use full value instruments, such as Restricted Stock Units (RSUs), the number of RSUs granted could be calculated based on 3-6-month average share price. If the recovery doesn't happen, appropriate add-ons can be considered.

Wait and watch: Make the equity grants later in the year. If things improve, the grant size should not get impacted materially. If the environment doesn't improve, the approach discussed above can be considered. To make up for the delay, the vesting schedule can be slightly accelerated, for instance, if the vesting schedule is 30-30-40, it could be 33-33-34 for this particular grant.

If the company has a one-time grant structure, then the following options could be considered.

If the grants are recent, irrespective of the nature of instrument (options, RSUs, performance shares) the wait-and-watch approach is probably the best. For historical grants, especially where the vesting was subject to performance and the performance period is approaching an end, there could be a challenge. If the performance

conditions were based on aspects such as total shareholder return or market capitalisation/share price increase, the remuneration committee can potentially revisit the averaging period at the end of performance period and use an average based on longer period, i.e., for companies already using a 3-month average of closing price, a 6-month average can be used. For those with no averaging, a 3-6-month average can be considered. If the performance conditions were internal (related to P&L, balance sheet, cash flow, etc.), the committee may have to apply discretion. Alternatives such as extending the performance measurement period itself, adjusting the past quarter performance, extrapolating the past three-quarter performance with suitable adjustments can be considered.

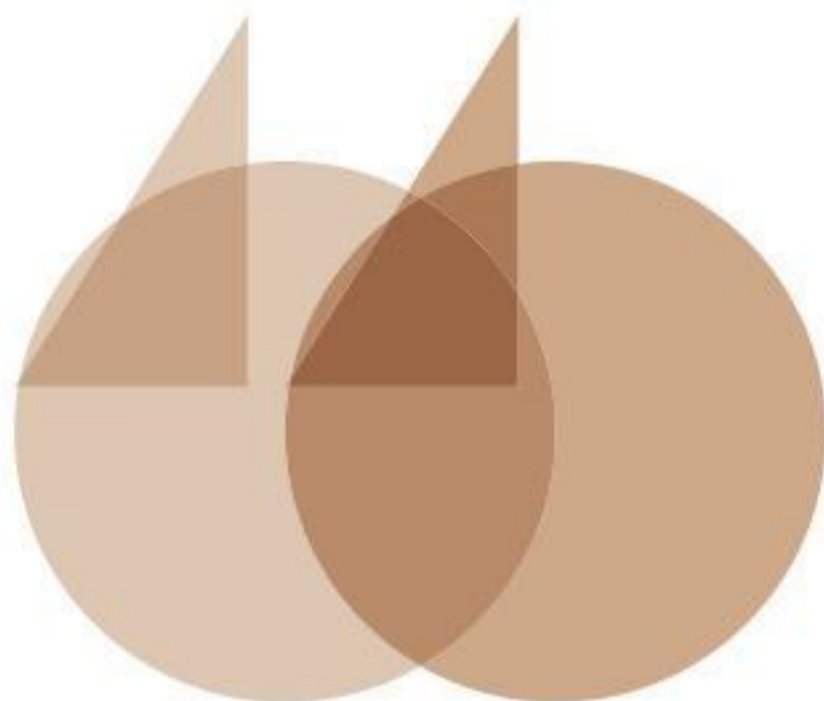
A New Price?

Re-pricing stock options is generally not acceptable to shareholders. But these are unprecedented times. Re-pricing may be considered only if there has been a sharp decline in share price, which in committee's view, is largely beyond the control of management and the expiry period of options is approaching. If there is some time left for options to expire, the committee could wait and see if there is recovery over the next few quarters.

A fine balance has to be achieved to ensure that the larger stakeholder community views the compensation practices in a positive manner, while the purpose of having an equity-based plan is met. **BT**

The author is Director, Deloitte India

Interview



“THERE WILL BE DIVERSIFICATION OF SUPPLY CHAINS”

With \$571 billion worth of assets under management, Blackstone is one of the world's leading investment firms. In India, it has invested about \$16 billion in real estate, private equity and stressed assets. It is also the biggest commercial real estate investor in the country. Blackstone Chairman, CEO and Co-founder, **Stephen A. Schwarzman**, talks to *Business Today's* **Joe C. Mathew** about what the emerging economic crisis caused by the spread of coronavirus means for the global economy, and more. Edited excerpts:

PHOTOGRAPHS BY YASIR IQBAL



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hat is your assessment of the world economy at present?

We had a situation that existed before the coronavirus and the current situation where there is coronavirus. The world was expecting something like 3.5 per cent growth, a little slower than in past years. The economic cycle around the world was getting a little old, but there wasn't much concern about a recession except for, maybe, in one or two regions, typically Europe. That has now changed, not particularly because of the virus itself and its medical consequences but because of people's response to that. It's not so much in India, as of today, but in China, where there's been almost a complete mobilisation of society, probably after decades. The first quarter has gone down for China's economy. It is the second-biggest economy in the world and a major part of the supply chain for many companies, from many



countries. If they can't continue to supply those countries with goods, then some will start running out of goods. A lot of companies also sell a lot of things in China. For the last month or more, stores and clients in China have been closed in many areas, so earnings of certain types of companies are going down quite rapidly.

There's a general fear of travelling as well as assembling. So aeroplanes and airports are empty. People are staying home so aren't generally shopping vigorously, though they are buying some things online. Sports events are getting cancelled. So, there's a ripple effect taking place across the world,

and people's reaction to the virus will have much more impact than this particular disease.

What about the economic impact of this ripple effect?

The economic impact is hard to know, because it's happening so rapidly. But it is certainly serious on a global basis. Certain industries will shut. For example, I don't think many people are going to take cruises over the next three to six months.

Is there a need to realign supply chain or change the way global businesses are conducted?

What's going to happen without any particular governmental involvement is that companies in certain industries will further diversify supply chains. For example, in pharmaceuticals, China has a very large concentration. If you can't get goods out of there, it can really damage the pharmaceuticals (sector). On a longer term, in business as well as political communities, over time, there will be more on-shoring and further diversification of supply chains.

What impact will moving away from off-shoring have on trade deals? Especially when countries are turning protectionist? How would it affect India-US free trade agreement talks?

From the Indian perspective, rebalancing of supply chains should be advantageous to it, if it approaches the opportunity in a way that convinces the global business community of its

position being good for their supply chain. It won't just happen; you have to do something to help people change their behaviour. Right now, diversification is happening towards many South-east Asian countries. I'm not aware of what the numbers are with India, but I don't hear people talking about India as much as those other countries. That doesn't mean India can't market itself. It certainly knows about services. In IT services, India is like number one in off-shoring.

This is not per se a government issue now as almost every business person is looking at this, and thinking does it make sense to leave things the way they are or should I change. Or, if I have further growth, where should that growth go? And of course, there's a cost for changing. Certain types of companies will bring some of their supply chain – not all of it – back to their own country in a balanced way. This will perhaps be in areas they think are particularly

sensitive for their operations. It will cost money, but it may be a decision that they feel is in their best interest.

In your recently published autobiography, *What It Takes: Lessons in the Pursuit of Excellence*, you have more than once talked about India as the fastest-growing economy. Any particular reason why one should be excited about India?

We (Blackstone) have done extremely well in India. Soon, India will have the youngest population in the world. India will have the most people in the 20-35 years age group in the world. Education levels are growing and the government is smartly allocating a lot more money for education. India is now producing seven times the number of engineers as the US. There's no doubt that India produces enormously talented people who can operate internationally.

India's got some substantial assets – 1.3 billion people. As the country gets more prosperous, the middle classes will become more prosperous and people will want goods and services. A global player like us can help supply that need.

What should India do to attract private investments?

India has moved in that direction. My first experience was in about 1991, when India's finance minister came to New York and explained to the finance community how India was behind China in terms of economic growth and was deciding to change its economic system. That seemed like a very bold prediction. But the finance minister was very confident, so it was interesting to listen to. It's important that India continues to change and accelerate it. It is also important that once changes are made, governments don't go backwards because that lack of predictability discourages investment.

Also, approval times in India have historically been difficult; bureaucracy is large and sometimes doesn't take decisions and no decision is a decision. There's a need for continued debottlenecking. In terms of ease of operation, it's not the easiest place because of the system of the bureaucracy. That needs to be addressed.

What can be done to accelerate the growth of start-ups?

You need an ecosystem, which India is starting to develop now. You need smart and energetic people, good ideas, and capital. You also need people with some experience who can teach the younger people who have a really good idea but have never run anything. Without experience, you can make mistakes that could have been avoided if a knowledgeable adult was around. Mentorship is needed.

Usually, start-ups grow around universities. India has an entrepreneurial culture and you are getting a lot of unicorns. India is number three in the world (in terms of start-ups) now. Of course, India is far behind China and the US, but it's still number three, and it's coming up. That's a real opportunity.

If you really want to get people thinking about India, you should have Indian representatives articulate it in every financial conference in the world

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Impact investments are catching up world over. What can be done to attract global foundations to invest in India-specific projects?

The answer to that is marketing. There are different types of marketing, including door-to-door selling. If you really want to get people thinking about India, you should have Indian representatives articulate it in every financial conference in the world. You should lay out all the different things that can happen and have a calling programme on pools of capital. You become successful by having a huge coordinated effort. Things do not happen because they're good for you. They happen because you make them happen. If you're not coordinated and not doing that, then people won't respond. It is not because there's any bias. It's just that someone else will be taking their mindshare.

How does Blackstone view its prospects in India?

Even though India's economic growth is slowing, we have plans to continue expanding our real estate activities. We are already the largest in the country (in terms of commercial real estate space ownership), but our aspiration is to double that. We're not speculators. We're very conservative. We think the IT business will continue to expand its workforce. We are the largest office building group for IT, so that's a natural thing for us. There are two other classes we will continue to buy – mall and warehouse space. We have been the largest buyers of warehouses in the world since 2011; we have bought one billion square feet of warehouses. The reason is that we saw a story in Amazon and internet shopping. So other than in India, we sold all our malls. And, when they collapsed, we didn't lose anything. We thought about who was going to be the winner in real estate now. And from internet shopping came the answer, warehouses, because you have to store your goods to be able to deliver. We increased warehouse (buys) 50 per cent or more than other real estate asset classes. This was a perfect strategic decision which was well executed. We'll do more of that. India has also changed enormously in the last five to six years in terms of internet shopping. **BT**

@joecmathew

Full interview on www.businesstoday.in

Money Today



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REBALANCE YOUR INVESTMENT

THE RECENT CRASH
IN EQUITIES, SURGE IN
GOLD PRICES AND FALL
IN FIXED INCOME YIELD
WARRANTS A PORTFOLIO
REVIEW TO REALIGN IT
AS PER YOUR LIFE GOALS
AND RISK APPETITE

ILLUSTRATION BY RAJ VERMA

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THE CRASH
AND AFTER

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HOW TO GET
EMERGENCY
FUNDING



Rebalance Your Portfolio

THE RECENT CRASH IN EQUITIES, SURGE IN GOLD PRICES AND FALL IN FIXED INCOME YIELD WARRANTS A PORTFOLIO REVIEW TO REALIGN IT AS PER YOUR LIFE GOALS AND RISK APPETITE

BY APRAJITA SHARMA

ILLUSTRATION BY RAJ VERMA

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quity markets were trading near all-time highs when all hell broke loose and a black swan – novel coronavirus – bit the world. Its spread and fears of a looming global recession sent world markets, including India's, into a tail-spin. The fast-spreading virus has triggered unconventional market trends – not just in equities, but also the debt market, and even gold. Debt funds witnessed heavy redemptions in March after bond yields spiked, though the repo rate cut by the Reserve Bank of India (RBI) has now boosted bond prices. Gold, which was at a high in the first week of March, tanked as much as 10 per cent in the following weeks. It has recouped some losses since.

With wild swings in asset classes, if your portfolio has taken a dispropor-

tionate shape not just in returns but also asset allocation, this is the occasion to rebalance it as per your life goals. However, extraordinary times require extraordinary measures.

Your equity allocation may have shrunk below your targets. Conventional wisdom says buy more. But should you really dip into equities when longevity of the Covid-19 crisis and its impact on the stock market is not clear? Wouldn't it be better to take a do-nothing approach?

A person with a key financial goal just a year or two away may prefer the safety of debt instruments compared to someone who can wait at least five years. Similarly, recent investments, for example, a three-year-old mutual fund portfolio, would have incurred losses post the market crash while returns in long-term portfolios are positive (see table). Both portfolios will require a different strategy.

“Your asset allocation should be defined not by how asset classes are performing, but by your own life situation. If your goals are near (one-two years),

Checklist for Portfolio Rebalancing

Rebalance your portfolio across assets at least once a year or after steep gains or losses in a single asset

Current steep correction in stock markets is a good time to tactically allocate more to equities, but do it only if your goal is at least five years away

Factor in any change in risk appetite, time left for the goal and stage of asset return cycle

If goals are less than five years away, shift your funds towards debt to preserve capital

Rebalancing may mean incurring costs such as brokerage, transaction charges and exit loads in MFs

The target is achieving your life goals, not making a quick buck on short-term blips

Be aware of tax implications and plan to minimise cost

Increase equity exposure either through excess in other assets or with surplus cash

If your gold exposure is high, this may be the right time to reduce it to no more than 10% of your portfolio as the yellow metal is near all-time highs

Buy a property only for residential purpose; real estate investment is inadvisable at this juncture

you can't afford to take the risk of investing in volatile assets. If your goal is more than seven-eight years away, a larger chunk of your investments should be in equities because they have the potential of giving higher returns. Under no circumstances should you overlook your overall asset mix," says Raj Khosla, Founder and MD, MyMoneyMantra.com.

Ultimately, you must have a well-diversified portfolio across asset classes that protects you from sudden shocks such as the one that has gripped the world now.

Well-diversified Portfolios

The recent market correction may have shaved off most equity gains, but if you had diversified a part of your portfolio in debt and gold, it would have supported your overall portfolio returns in the short to medium term. For example, gold has returned 38.48 per cent, 16.08 per cent and 11.33 per cent, respectively, in last one, three and five years. Similarly, 10-year government securities (G-sec) returned 14.65 per cent, 6.85 per cent and 8.06 per cent, respectively, during these years.

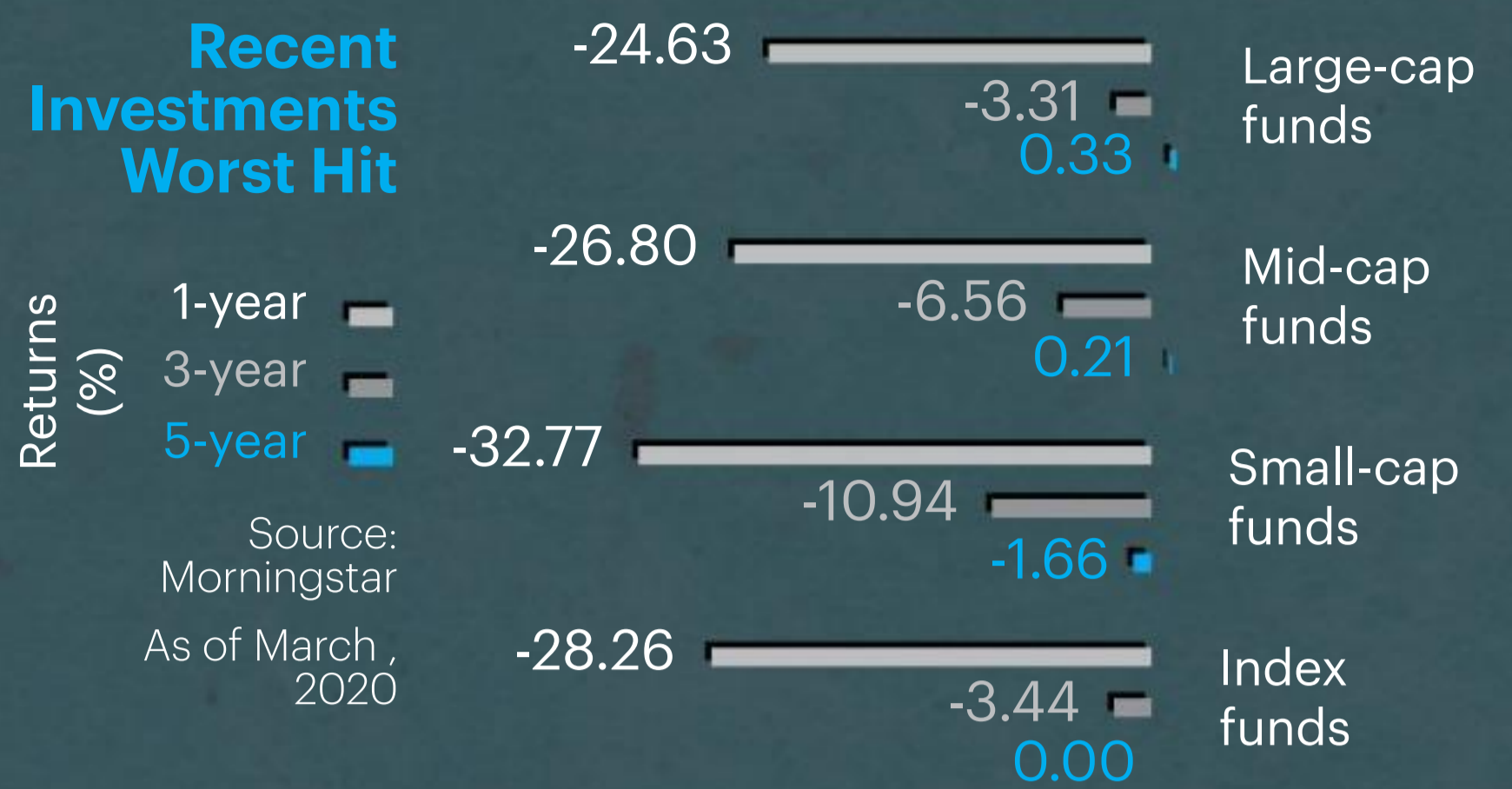
"Asset allocation as per your risk appetite becomes important during times of crises. A lot of people at the moment would be avoiding equity markets completely and investing in safe-havens like gold, gold ETFs and gold funds. Aggressive players must be taking exposure to equities to make the most of lower valuations. These times also make it important for you to see that are you insured properly. Debt investments will help you find a mid-way between equities and gold as there is more certainty attached to them," says Jashan Arora, Director, Master Capital Services.

Here's how investors in various stages of life with different life goals could rebalance their portfolio.

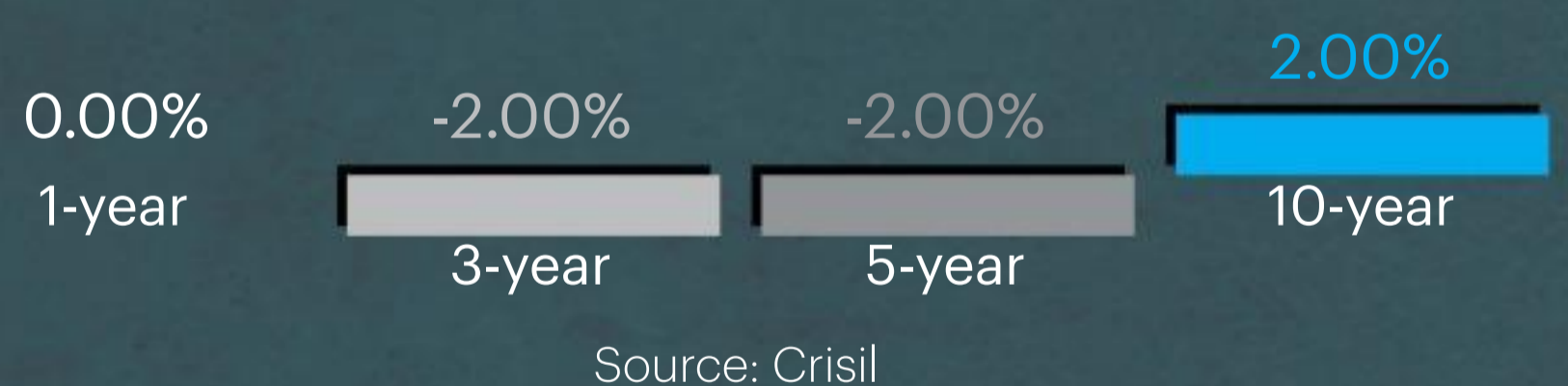
If You Are 25-35 Years Old

A young person in twenties or early thirties should have about 70 per cent portfolio in equities and the rest in debt and gold. After the market correction, your equity allocation may have reduced by 10-15 per cent and allocation to debt and gold may have increased. However, your life goals will still be the same. For your long-term goals such as buying a house or having adequate retirement funds, you should rebalance your portfolio back to 70 per cent equities. "Aggressive investors can look at overbalancing, that is, going overweight on their equity exposure, say around 10 per cent more than the initial exposure," advises Arun Kumar, Head of Research at FundsIndia.com. However, for short-term life goals, for example, a destination wedding, child's school admission or down-payment for buying a car, you may want to allocate funds in fixed deposits or debt funds.

"Your investments should always be backed up by financial goals. Your investment strategy if are looking to benefit from small blips in the market would be very different from if you are saving and investing for your

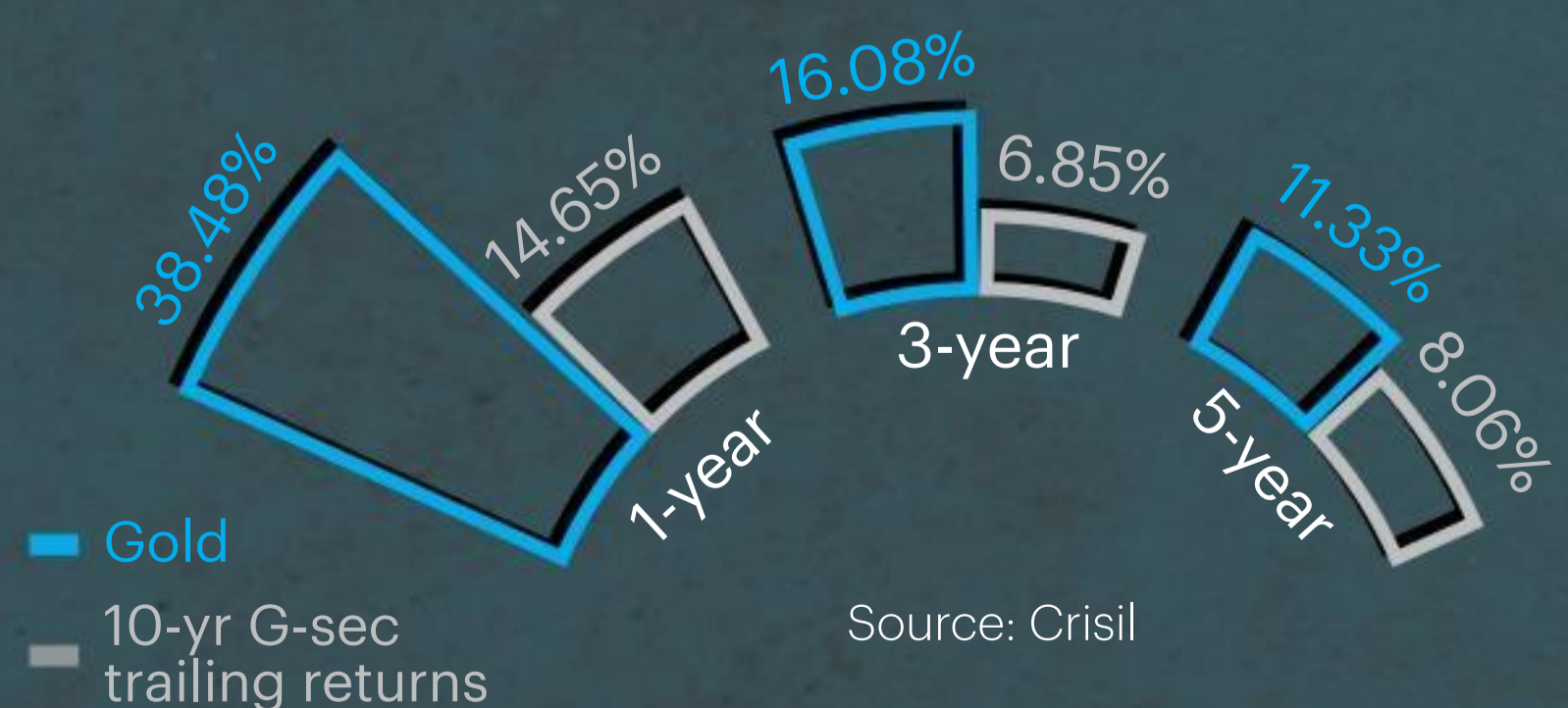


Real Estate Returns Disappointing Even in Long Term



How Diversification Helps

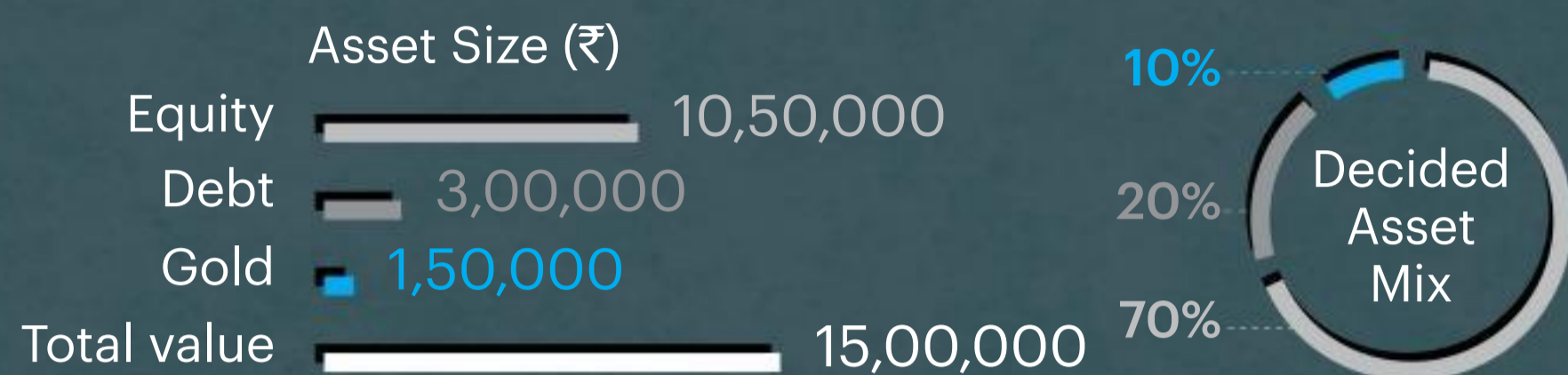
Exposure to other asset classes such as gold and G-Secs would have helped. Their good performance compensated for losses from equities in the short to medium term



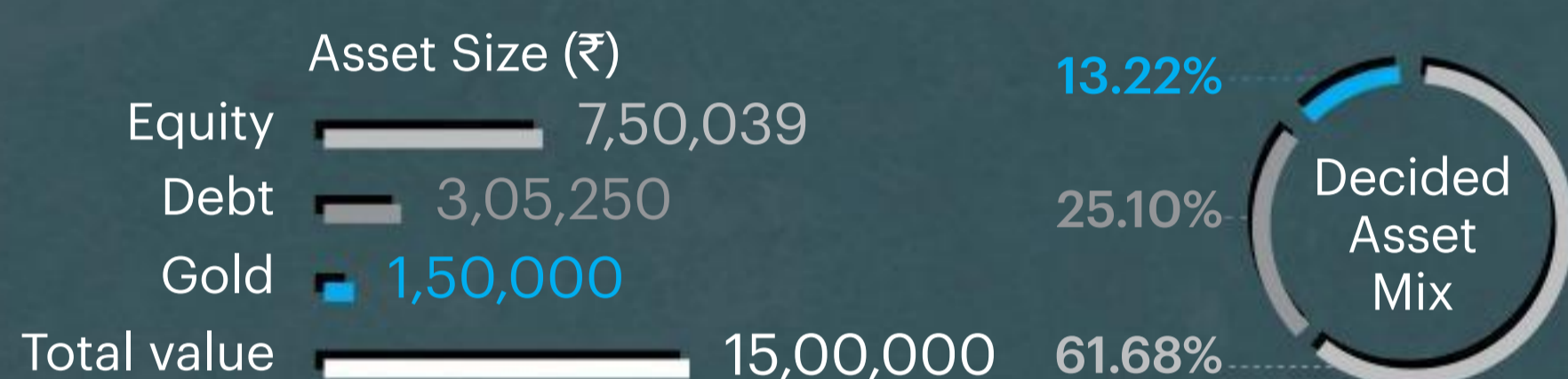
How To Rebalance

A typical portfolio of a 30-year-old with 70% equity allocation

Portfolio Before Corona Crisis (Dec 31, 2019)



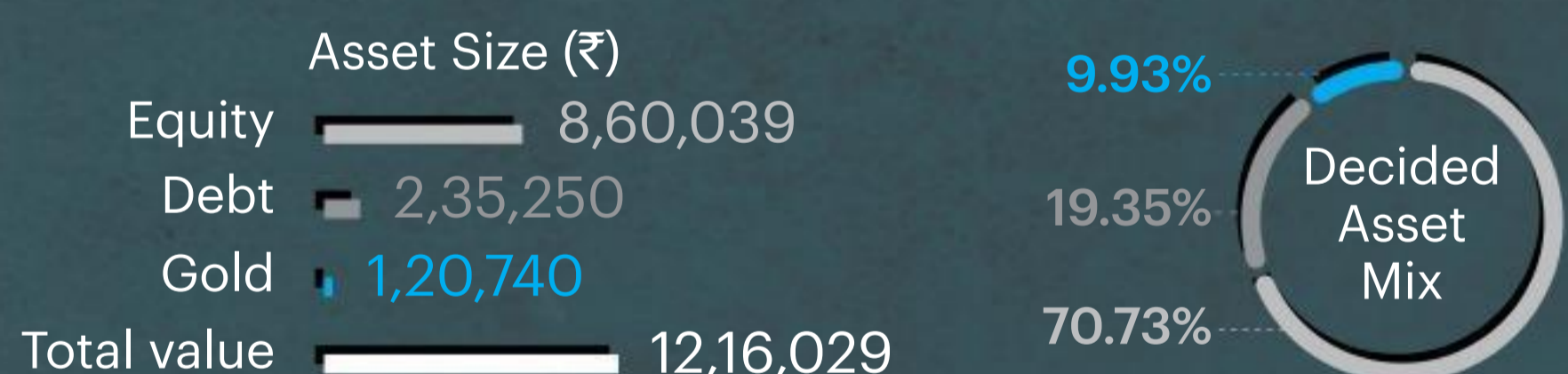
Portfolio After Corona Crisis Struck (Mar 31, 2020)*



*Equity return - Sensex has fallen by 28.56% from December 31, 2019 to March 31, 2020. Debt return assumed at 7% p.a. Gold has risen 7.16% during the period

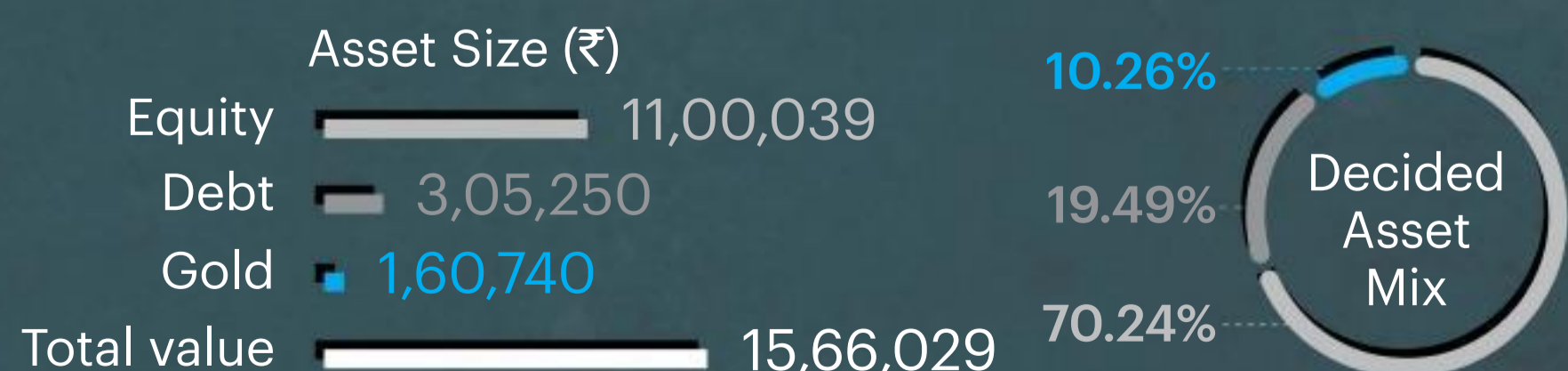
Scenario 1: Rebalanced Portfolio After Funds Reallocated Internally

If you do not want to make additional investments, you will have to take out ₹70,000 from debt and ₹40,000 from gold and move these to equity



Scenario 2: Rebalanced Portfolio After Additional Investment

If you do not wish to touch other asset classes, you will have to put in ₹3,50,000 in equities to maintain the earlier asset mix



child's education," says Arora.

It's also important to have some cash reserve, which not only gives you some confidence but also helps in case of, say, a medical emergency. "You can think of investing in liquid funds and overnight funds as they provide liquidity and give small returns too," says Arora.

If some part of your portfolio is invested in gold, it may have risen significantly. Should you book profits and divert the funds into other classes? "Ideally, no, because if the markets remain turbulent, then gold will remain at a high value, and possibly scale newer highs. So, remaining invested would be the best strategy," says Sousthav Chakrabarty, Co-founder and CEO of Capital Quotient.

However, gold should not form a major portion of your portfolio. "Invest only 5-10 per cent in gold. Buying Sovereign Gold Bonds is a better option (than physical gold) as it gives an added interest advantage of 2.5 per cent per annum and also saves on expenses," says certified financial planner Pankaj Malde. So if your gold investment has gone beyond 10 per cent, you may prune it by shifting proceeds towards equity.

If You Are 35-50 Years Old

People in this age bracket may have more short-term goals, such as children's education or buying a house, as well as long-term goals such as retirement planning.

If you had invested equally in debt and equities, in the current situation, your debt exposure may have gone up significantly. Should you bring it down to divert funds into other asset classes? "This will be a tactical call. Someone with higher risk appetite could bring up the equity levels as per his strategic asset allocation needs. For debt, there are no real substitutes. Within debt, one may look at PSU bonds, tax-free bonds, small savings schemes, bank FDs, etc," suggests Suresh Sadagopan, Founder, Ladder7 Financial.

In this age group, a significant chunk of portfolio may be invested in debt. But one must remember that debt investment is not always safe. "Now that the repo rate is at 4.4 per cent, you should not expect double-digit returns from debt funds. Also, the current lockdown may result in default in payment of interest and principal (by companies). So, there is risk in investing in debt funds. Investing looking at only YTM (yield-to-maturity) is foolishness," says Malde.

Moreover, one must remember that a loss in debt funds is permanent while in equity, good stocks recover in time. "In debt, increasing your investments in VPF (voluntary provident fund) and PPF (Public Provident Fund) makes sense as returns from both are above fixed deposit rates and also tax-free," says Malde.

That said, in the current scenario, if you can take risk, you may consider tactically increasing exposure in equities - at least for discretionary goals three-five years away. "Historically, markets have always recov-

ered from corrections and the initial phase of recovery has been extremely sharp. Given the significant fall of around 35-40 per cent, going by pure math, we are looking at a 50-70 per cent upside return just to get back to earlier levels,” says Kumar of FundsIndia. For example, during the global financial crisis of 2008-09, the market (Nifty 500 TRI) had gone up 85 per cent in the first three months of recovery, he adds.

If You Are in 50-65 Age Group

For this age group, usually, major life goals have been met and retirement fund is of utmost importance. Since retirement is not far away, ideally you should have started shifting your retirement fund invested in equities to debt at points when equities were trading at a high. If you weren't already shifting away from equities, the market crash would have put your portfolio in a soup. But don't panic. Selling equities at such steep losses will be a wrong move. “Stocks, though pulverised at this point, will bounce back with time. If you have sufficient liquidity and contingency funds to tide over this crisis as well as meet short-term needs, you need not worry. In time, all these will recover. If these are long-term funds, then it should not be a matter for concern,” says Sadagopan.

Ideally, people in this age bracket should have little equity exposure. However, for the purpose of wealth creation or bequeathing, you may invest in equities. Consider this thumb rule: ideal equity allocation is 100 minus your age. For example, a 60-year-old should not keep more than 40 per cent portfolio in equities.

“In the debt market, we recommend investors to stay invested in traditional instruments like FDs. If they want to further secure their investments, they could venture into AAA-category corporate bonds or PSU and banking bonds,” says Tarun Birani, Founder and Director of TBNG Capital Advisors.

If you are 65 years and above, keep all investments in debt instruments, especially those that offer regular in-

come. With the available cash, you may also buy pension plans such as an immediate life annuity with return of purchase price.

What About Real Estate?

Being an illiquid asset, financial planners do not advise purchase of real estate for investment. Pan-India data for last 10 years shows that real estate has appreciated only 2 per cent in the period, according to Crisil. In fact, it has depreciated by 2 per cent in the medium term. “Investment in real estate is not advisable at this juncture. Buying a property for self makes sense, particularly if you are paying high rentals. Buy



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The level till which long-term (more than a year) profits are tax exempt. Short-term capital gains tax on equities is 15% and long-term capital gains tax is 10% without indexation



a ready-to-move in home if you are in a position to service the EMIs. Not only does this help you save rentals, home loan interest (up to ₹2 lakh) and principal (up to ₹1.5 lakh) are tax deductible,” says Malde.

Cost Involved in Rebalancing

While you rebalance your portfolio, keep in mind the various costs involved such as exit loads, brokerage charges and even taxation. “If an investor considers a portfolio rebalance, he needs to analyse his earnings versus cost and net profitability,” says Birani.

For example, selling a stock attracts brokerage charges, equity and debt mutual funds have expense ratios and, in some cases, exit loads. In case of fixed income options, Khosla says, the costs can be in the form of lower interest rates on fixed deposits or a penalty for

foreclosing a bond.

Gains on debt instruments are taxed as regular income if the holding period is less than three years and at 20 per cent with inflation indexation if you hold it for more than three years. Equities attract short-term (less than a year) capital gains tax of 15 per cent and long-term capital gains tax of 10 per cent without indexation. Note that long-term profits up to ₹1 lakh are tax-exempt.

What Should a New Investor Do?

If you are a new investor looking to build your portfolio, start with fixing allocation across asset classes as per your age. Build the equity portfolio over a period of 12 months via systematic investment plans (SIPs) or systematic transfer plans (STPs) on a weekly basis, advises Himanshu Kohli, Co-founder, Client Associates. “For fixed income, park money in high quality short-term or corporate bond funds,” he adds.

In equities, pick blue chip stocks and large-cap and multi-cap funds. Besides, if you are a new investor, you should always be ready for 20-30 per cent correction in equities over a six month period. “This should be considered a normal stock market behavior. Once in 8-10 years, investors should also be mentally prepared for a 50 per cent correction,” says Kumar of FundsIndia.

In debt, always keep some investments in fixed deposits apart from investing in AAA-category corporate bonds, banking bonds and PSU bond funds. “Exposing your portfolio by investing in anything below AAA-rated securities, credit risk funds and/or in sectors like infrastructure, metal, etc, must be strictly avoided,” cautions Birani.

If picking quality investments is a crucial first step towards building of your portfolio, reviewing it periodically is even more crucial. Always keep an eye on your financial goals and balance your asset allocation accordingly to avoid painful shocks when you need money. **BT**

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The Crash And After

STOCK MARKETS USUALLY RECOVER WITHIN
THREE-FIVE YEARS OF A STEEP FALL.
HERE IS HOW SOON CAN YOUR PORTFOLIO
GET BACK INTO SHAPE

BY NAVEEN KUMAR
ILLUSTRATION BY RAJ VERMA

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quity markets are facing another meltdown, more than a decade after the subprime crisis roiled global markets. Such steep corrections – close to 30 per cent-plus in the last couple of months – can make even seasoned investors impatient. So, it is normal for the retail investors to get jittery about their future course of action at this stage.

Some investors may be thinking about exiting, anticipating a further crash, some may be thinking about not putting more money in equities and preferring to wait and watch, while others may be willing to continue their investments but with a lot of anxiety. A courageous lot may be willing to be adventurous and put more money in markets to buy at what many people are saying are low prices.

Is This the Bottom?

Before deciding the course of action, every investor wants to know one thing: is the correction over? There are no easy answers to this. “We are going through a period of unprecedented uncertainty. The inability to visualise duration, economic impact (of lockdowns due to coronavirus), global downtrend and uncertainty have led to markets spiralling downwards. To gauge the time to recovery, one has to have a sense of India after Covid-19. The impact on businesses (micro, small, mid & large), consumption, demand (internal and external), jobs will have a bearing on the economy,” says Prashant Joshi, Co-founder and Partner, Fintrust Advisors LLP.

Markets run ahead of time. Coronavirus is creating havoc in Europe and the US, major drivers of the global economy. So far, India has remained relatively less impacted than the rest of the world, though the number of infected is expected to rise in the coming days. The market has factored in the worst. The only uncertainty

is around the longevity of the lockdowns, both globally and in India. “This time, circumstances are a little different. We have never witnessed a pandemic in living memory, hence no one is sure about how long this will last, and what impact it will have on various economies and sectors. The recovery could be a bit prolonged due to that,” says Sousthav Chakrabarty, Co-founder & CEO, Capital Quotient.

And if things deteriorate significantly, we may see another sharp correction. Otherwise, the markets may remain range-bound, till they see some signs of normalcy. As per Tim Ord of Phillip Capital, up to 90 per cent correction is over. He says the correction may continue till July when Nifty may see 7,000 levels.

Time to Recover

Another big question is: how long will the pandemic last? “We are at the mercy of discovery of vaccinations and cures for this pandemic. This could take days, months, or even a year. What we know is that once we have the solution, Indian markets will bounce back to normalcy. A time-frame cannot be given yet, but yes, given that the crisis is not economic, Indian markets will resuscitate,” says Tarun Birani, Founder & CEO, TBNG Capital Advisors.

However, past is a good indicator of the likely recovery period, as biggest crashes in past have been followed by a robust recovery within two-three years. “If you see history, the market has a habit of recovering fast. The crisis is always driven by deficiency of liquidity in the system. When asset prices fall, money is parked into safer havens such as gold/dollar/yen. Once the government comes out with a bailout, either by printing money or providing fiscal benefits, smart money again starts chasing the asset. So, recovery will come, though its intensity is anyone’s guess. Even if we fall

further, I believe we will be back in less than two years,” says Vivek Bajaj, Co-founder, StockEdge.

Most experts say beginning of an sustainable recovery will take at least two-three quarters from here. “We expect stock markets to be volatile, driven by efforts that will shape the future. The stock markets, over a period of eight to 12 months, are expected to take a definitive path as earnings visibility and future growth path for companies become clear,” says Joshi of Fintrust Advisors. This means any investing strategy should take into account a prolonged recovery phase.

Different Shades of Recovery

Not all investors have been hurt equally badly. The extent of loss and, hence, the timing of recovery depend upon the point of entry and mode of investment – whether lump sum or systematic (Systematic Investment Plan). “Investors who have been in the market for more than five years might have averaged out their investments,” says Hemant Sood, Managing Director, Findoc Financial Services Group. This means they would have bought at lower levels, too, during the period. In comparison, those who entered the market one-two years ago will be staring at losses.

That is why the recovery period will differ for these two sets of investors. “Let me give an example of an index fund. As on April 1, 2020, the trailing returns on Nifty Fund show an approximate dip of 24.7 per cent for a period of one year, while for three and five years, the returns are -0.9 per cent and 1.28 per cent, respectively. So, 10-year and five-year investments will take less time to recover in comparison to a one-year investment,” says Birani of TBNG Capital Advisors.

This means that the older the investment period, the lesser will be your loss and the quicker will be your recovery.. However, you may have to wait longer to get to your desired return. “The annualised return is a function of years you have remained invested. A longer duration means a longer period will be required for recovery to meet the expected annualised return expectations,” says Bajaj of StockEdge.

Exit or Stop SIP?

Disheartened by losses, many investors may be thinking of exiting equities. However, the question is: where will they invest? Bank fixed deposits (FDs) are giving a 6 per cent return. After tax, this is much less. Some company FDs are giving more but come with higher

Sensex Recovery in Previous Crises	
Harshad Mehta Scam (1992)	
Apr 22, 1992	4,467.32
Apr 26, 1993	2,036.81
Fall	54.41%
Sept 12, 1994	4,630.54
Recovery period from bottom	504 days
Recovery period from peak	873 days
US Subprime Crisis (2008)	
Jan 8, 2008	20,873.33
Mar 9, 2009	8,160.4
Fall	60.91%
Nov 5, 2010	21,004.96
Recovery period from bottom	606 days
Recovery period from peak	1,032 days
Chinese Slowdown (2015)	
Jan 29, 2015	29,681.77
Feb 11, 2016	22,951.83
Fall	22.67%
Apr 5, 2017	29,974.24
Recovery period from bottom	419 days
Recovery period from peak	797 days

Overall Equity Returns with Recovery

With ₹10 lakh NAV at peak on Jan 14, 2020, and ₹10,000 monthly SIP, how the maturity amount will recover in different scenarios

RECOVERY AFTER FIVE YEARS				
Scenarios	Total investment (Pre-crash NAV + Post-crash investment)	Market back at current level	Market 20% above current level	Market 50% above current level
Stop SIP, shift money to FD @ 6%	₹10 lakh	₹9.07 lakh	₹9.07 lakh	₹9.07 lakh
Stop SIP, stay invested	₹10 lakh	₹10 lakh	₹12 lakh	₹15 lakh
Let the SIP run	₹16 lakh	₹17.33 lakh	₹20.08 lakh	₹24.13 lakh
Run SIP & invest ₹1 lakh lump sum	₹17 lakh	₹18.81 lakh	₹21.86 lakh	₹26.35 lakh

risk. Gold has of late seen a significant surge that is unlikely to be repeated in the medium term. Real estate is going through a bad phase.

Our example (see *Overall Equity Return with Recovery*) shows that FDs cannot help you recover your recent loss from equities even in five years. So, keep investing in equities, as that is your best chance of a quick recovery. "SIPs should be continued. A lot of people do value SIPs, which means they invest a large sum when the market is down and less when the market is up. But that requires active engagement. If one cannot do it proactively, one should stick to the basic plan," says Bajaj of StockEdge. Even if you are not comfortable with investing more, stop future investments, but let the current ones continue. However, the best course will be to add equities when they are cheap so that your average cost of purchase comes down and your equity portfolio gives a higher return whenever the market bounces back.

Buy in Staggered Manner

If you have lost money and plan to make a quick buck by investing in current market conditions, it may be a good idea to hold on for a while. "Historically, we have seen that markets can take anywhere from 18 months to 48 months to recover if one has

Though nobody knows how long the pandemic will last, past is a good indicator of the recovery period, as biggest crashes earlier have been followed by a robust recovery within 2-3 years

entered at the peak. It is advisable to build a portfolio gradually (irrespective of markets levels) rather than allowing a single price point to impact your returns," says Joshi of Fintrust.

Most seasoned equity investors make volatility their friend as they know that every correction throws an opportunity to buy at lower levels. However, should you time the market and invest surplus at the current level, or do so in a staggered manner? "Investors should increase monthly SIP commitments. This will ensure they average adequately in any further downside we may see. For lump sum investments, we recommend that one should invest only 30 per cent at current levels, 40 per cent at 10 per cent lower levels and balance 30 per cent only if there is a 20 per cent correction from here. This will make the recovery much faster, in as much as 50 per cent lesser time, mathematically,"

says Chakrabarty of Capital Quotient. Even if you are an adventurous investor with high-risk appetite and wish to invest in the current market, do so only if you have a long-term horizon.

It is not uncommon to find investors betting on wrong stocks which may not deliver result even when markets recover. So, do a thorough research or take professional guidance. "It is important to look at current holdings, the rationale for the holdings and whether they still make sense in today's context. In every fall, we have seen investors averaging and holding onto the same stocks, sectors, fund managers which never recovered, eventually to get disappointed. It is advisable to seek professional advice," says Joshi of Findtrust.

Most of the time, companies that take a lead in market recovery are different from the leaders in the last cycle and only experts can identify these opportunities. "After such severe meltdowns, markets always have a recovery cycle. However, constituents which have led the recovery in previous upcycles (sectors, stocks) have not always been the same," says Joshi of Findtrust. A better way for you is to stick to mutual funds and let experts handle your money.**BT**

@naveenkumar

How to Get Emergency Funding

A LARGE NUMBER OF PEOPLE ARE UNDER FINANCIAL STRESS DUE TO LOCKDOWN AND MARKET CRASH. HERE ARE SOME AVENUES FOR RAISING MONEY WITH EASE

BY NAVEEN KUMAR
ILLUSTRATION BY RAJ VERMA

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hese are tough times for people across the country due to lockdown. One reason is that many citizens were unprepared for its impact on our incomes and were caught off-guard. While the government has come out with many schemes to support those in lower income groups, the only relief the middle-class has got is moratorium on payment of EMIs till May. While most self-employed people are facing a huge disruption in business and income loss, things are not much better for many salaried employees either due to delay in payment of salaries and, in some cases, even pay cuts and job losses.

The first impulse of a person facing a financial crunch is to approach a bank for a personal loan. However, there are a host of other options than a personal loan.

Understand Your Requirement

The first thing you should be clear about is the nature of your need. Is your expense avoidable at this stage? If no, can you ensure spending of as little amount as possible? And, is your problem temporary or are there chances of income disruption lingering on for a longer period?

If the disruption is likely to continue for a longer period, it is better to liquidate investments rather than take a loan, and opt for a drastic cut in both discretionary and day-to-day expenses. Avoid borrowing till your income



prospects improve. Take a loan only if you are sure about your future income and repayment capacity.

Your Options – And Their Cost

The first thing you need to check is your investments not linked to any goal. Avoid liquidating equity investments at this stage to avoid booking a loss and erode chances of gaining from a possible recovery in future. Use fixed income investments and gold first. You may also look at taking a loan against investments such as fixed deposits (FDs) and public

available at 1 per cent interest. However, you lose earning interest on the amount of money borrowed.

You can also look at loan against financial securities such as shares and mutual funds. “Loans against FDs and securities are usually offered in the form of overdraft. The borrower can keep drawing and repaying within the sanctioned limit any number of times till the termination of the facility. The interest is charged only on the drawn amount till its repayment,” says Kukreja.

Loan Against Gold: Gold loan gives

loan and loan against securities usually starts from 9-9.5 per cent per annum. However, availing these options may not be easy as most banks are working with limited staff and NBFCs are unable to function due to lockdown constraints,” says Kukreja.

Employee Provident Fund: While 75 per cent and 100 per cent EPF withdrawal is allowed in case of unemployment for one month and two months, respectively, the government recently allowed people to take 75 per cent of their EPF balance as non-refundable advance. This amount should not be more than three months basic salary. However, as EPF money is meant for your post-retirement life, you should be cautious while using this option. “Unless there is an emergency, EPF withdrawal should be the last resort,” says Bala Parthasarathy, CEO and Co-founder, MoneyTap.

Bank and Credit Card: Personal loans should be your last line of defence due to higher interest cost. However, you can still look at the least costly personal loans. One of these could be a pre-approved offer given by your existing bank and credit card providers. “Credit card holders with good repayment history are usually offered a pre-approved loan against the card. The interest rates for personal or credit card loans start from 11 per cent per annum depending on your credit history, monthly income, occupation, etc. The tenure can go up to five years,” says Kukreja of Paisabazaar.com.



Know Your Options

<p>Rather than liquidating long-term investments, take a loan or advance against them</p> <p>.....</p> <p>A secured loan is less costly than an unsecured loan like personal loan</p>	<p>Take loan against old FDs locked in at higher interest rates</p> <p>.....</p> <p>You can take 75% non-refundable advance against your EPF balance</p>	<p>Take loan against PPF balance at just 1% interest or go for partial withdrawal</p> <p>.....</p> <p>Rather than liquidating your beaten down shares and MFs, take loan against them</p>	<p>Use gold loan; higher gold prices may get you a bigger loan</p> <p>.....</p> <p>In uncertain times, an overdraft facility could be better than a term loan</p>
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provident fund (PPF). Redeeming these is not a good idea as they are usually linked to some long-term life goals. “Loans against PPF and FDs are probably the cheapest among all options followed by loans against securities and gold. The interest rate of loan against FDs is usually around 2 per cent higher than the interest rate earned on liened FDs,” says Naveen Kukreja, CEO and Co-founder, Paisabazaar.com. Loan against PPF is

one of the most flexible repayment options. The recent surge in gold prices has increased the amount of money people can raise against the yellow metal. While there is also the usual EMI option, you can also choose to pay interest at the time of the loan or each month and pay the principal at the end of the loan tenure. Besides, this product has many customisable variants. The interest cost is on the lower side. “The interest rate of gold

Fintech Lenders: When you have no other source of funding left, you can go for loans from fintech players which are offered online. However, you should use this option only when you are sure about your future income and comfortable about your ability to repay. These loans usually have a higher interest rate and so it will be better to keep the tenure as short as possible to minimise the interest cost.**BT**

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Network



PHOTOGRAPH BY SOUMIK KAR

Healthcare at A.M. Naik's Heart

Charity indeed began at home for L&T Chairman **A.M. Naik**. His father, Manibhai Naik, who was the principal of a school in a village in South Gujarat, had devoted his life to upliftment of poor children. His grandfather, too, was a school principal and a social worker. The engineer, who headed India's largest engineering and technology company for over two decades, decided to donate 75 per cent of his income to social causes.

In 1995, when Naik was a mid-level manager with L&T, his father had requested him to arrange some additional beds and facilities for a hospital in the village of Kharel, Gujarat. Instead of using his corporate connections, Naik dipped into his personal savings and provident fund to offer ₹4 lakh.

It was about 15 years later, in 2009, when Naik set up two trusts – the Nirali Memorial Medical Trust (NMMT; named after his granddaughter Nirali who passed away at the age of two) for healthcare, and the AM Naik Charitable Trust for education and skill-building. "When we lost her to cancer, my family and I decided to turn our personal tragedy into a step that would benefit thousands of Niralis around the country."

NMMT's early projects included setting up an advanced radiation centre in Surat (*inset photo*), and mobile clinics. A couple of years ago, it set up a multi-diagnostic centre in Powai, Mumbai. The Trust is now setting up a healthcare campus at Navsari near Surat. It will have an advanced cancer hospital that will be

run in collaboration with Tata Trusts, and will have facilities to offer close to 16,000 sessions of radiotherapy, 630 patient surgeries and 5,000 cycles of chemotherapy. The campus will have a 300-bed multi-specialty hospital as well that will be run by the Apollo Group. "Whatever service or facility we offer, we must be as good as the best in the world," says Naik.

Naik and his family directly head the Trust's activities. In this he has the active support of his children, who are settled in the US. "In the final analysis, a society and a community is going to be judged not by how greatly it helps the wealthy and the powerful but how effectively it responds to the needs of the vulnerable and the marginalised."

– P.B. JAYAKUMAR



PHOTOGRAPH BY ICC

THE HARD HITTER

Like a true-blue Indian, **Indra Nooyi**, former CEO of PepsiCo, had always been in love with cricket. While she is not known for her career in cricket, Nooyi's passion for the sport is well-documented. She was determined to start the first women's cricket team at the Madras Christian College. It was 1971 and eyebrows were raised but a resolute Nooyi got her way. Once her

college started its women's cricket team, others followed suit.

The seam bowler took some valuable lessons from the pitch to the board room. Nooyi believes that the game showed her how to put her team first.

However, when she moved to the US in the late 70s, she could not pursue her passion. So she adapted and found a different pitch – baseball.

In 2018, the International Cricket Council (ICC) appointed Nooyi as the first independent female director. "I love the game of cricket. I played it as a teenager and in college, and to this day, I cherish the lessons the game taught me about teamwork, integrity, respect, and healthy competition," she said.

– ANWESHA MADHUKALYA

MAGAZINE KING



WORDS OF WISDOM

As a child, Sandeep Lodha, CEO of Oyo-owned Weddingz.in, was not into reading. His love for books started only after he started working. "A friend suggested that I read *Shoe Dog* by Phil Knight when I was toiling to set up my start-up. The book, which talks about how Knight created Nike, helped me deal with the stress. The book taught me how to ride through the initial challenges such as family pressure and rejection from investors," says Lodha.

Now, books on entrepreneurship – *The Airbnb Story* by Leigh Gallagher; *Alibaba: The House That Jack Ma Built* by Duncan Clark to *Cold Steel* by Tim Bouquet and Byron Ousey – keep Lodha motivated. "In 2016, we were a hand-to-mouth start-up.

When demonetisation happened, we felt our business would shut, but we survived. In difficult times like these I look up to books and find ways to sail through," he says.

The spread of coronavirus yet again poses a challenge, but Lodha is in high spirits. His guiding light is the book on Alibaba by Clark, which talks of how Jack Ma made it through the SARS outbreak in China and the company's headquarters being quarantined right before the launch of e-commerce platform Taobao. "It's survival of the fittest. This is the time to be creative and evolve. Build a new business model so that once the lockdown opens, you emerge stronger and sharper," Lodha advises.

– APRAJITA SHARMA

Best Advice I Ever Got

“BE PREPARED TO LISTEN; BE OPEN TO CRITICISM”

ACHARYA BALKRISHNA, MANAGING DIRECTOR, PATANJALI AYURVED

.....



Q: What was the problem you were grappling with?

A: The last few years have been full of learnings. First, it was demonetisation, followed by GST. We realised that our supply chain and distribution network were not geared to embrace the new system. Most of our MNC competitors were ahead of the curve as they were prepared for it. We had to reinvent ourselves completely.

Q: Who did you approach for advice and why?

A: We knew we needed to upgrade ourselves and met a lot of supply-chain solution providers. Each of them told us the benefits of their product and disadvantages of their competitor's product. By the time we met the fourth or the fifth solution provider, we knew what questions to ask and little did the person know that our knowledge had come by listening to his competitors. I was also quite moved by a statement of Infosys Founder Narayana Murthy, who had said that a person fails when he is in his own shell and doesn't listen to what the world around him is saying, when he is not open to criticism. One has to be open to listening to criticism.

Q: What was the advice?

A: Listen to what is happening around us with an open mind and do not be biased. I listened to people and learnt a lot about technology, despite having no formal training in it. We realised that we could have our own tech start-up and we came up with our own end-to-end supply chain and distribution technology.

Q: How effective was it?

A: I have five tech patents to my credit and I am even ready to sell my solution to third parties. Patanjali is back on the growth track, as we have fixed the gaps in the business. We hope to close FY21 with a revenue of ₹10,000 crore, and double our growth in the coming years. **BT**

— AJITA SHASHIDHAR

PHOTOGRAPH BY BANDEEP SINGH