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NAVIGATING A NEVER NORMAL WORLD

VIDEO TRANSCRIPT

The world economy is at an inflection point. The pandemic has led to unprecedented disruption. It has exposed underlying weaknesses in global economic models, business operating structures, and in the ability of countries to cope with large social and health crises. In many cases, it has aggravated socio-economic gaps. And, when combined with geopolitical stress, it has created levels of uncertainty we have never witnessed before.

The pandemic has changed human behavior, maybe forever. Whether it's in terms of consumption patterns, availing merchant services, conscious consumption or focus on health—these are all examples of the shift in our behavior.

In a way, the uncertainty provides an opportunity for us to review and reset things—at the individual, societal and economic levels. It's an opportunity for us to find innovative solutions, not just for current challenges created by the crisis, but also, in the long term, to strengthen the foundation of how we work and operate. In India, this could mean improving healthcare or education infrastructure or undertaking much-needed fiscal or labor reforms.

From a macro economic standpoint, the crisis presents long-term opportunities for India. As corporations look to diversify supply chain and production across the world, India could become a global hub—whether it's for services, specialized manufacturing, agriculture or healthcare.

Overall, the road to recovery is not going to be easy. To realize the opportunities presented by the crisis, we need greater agilities, an improved ability to predict and prepare, as well as big changes in how corporates work and in our policies.

We're privileged to have with us **Mr. Deepak Parikh**, the chairman of HDFC. He's credited with growing HDFC into India's leading financial services conglomerate. He's certainly the authority on India's economy and the Indian industry. Mr Deepak will share his thoughts on what we as a nation should be doing not just to outmaneuver the uncertainty caused by the pandemic, but also to seize the opportunities created by the global crisis.

After the failed economic unlock, we're observing some green shoots—these are the upticks in industrial activity, services trade, and sales in sectors like automotive. Do you think the work is over and we'll see a robust growth in consumer demand?

Restarting and restructuring the economy in a post-Covid world is the thought-provoking discussion at the moment. It occupies governments, companies' boards, companies across all sectors and of varying sizes, entrepreneurs, and most importantly, households spanning the young, the middle age and the old. Restarting is easier than restructuring, of course. Green shoots are evident in high frequency data, sole collections, e-way bills, digital transactions, two wheelers, passenger cars, electricity, fuel rate—all of these are showing sequential improvement. E-toll collections are at 80 percent of pre-Covid era. An increase in e-way bills indicates increased transport of goods. In July alone, 4.3 crore of e-bay bills were generated vs 5.5 per month in the pre-Covid time, which means we're already 82 percent there. A record 1.6 billion of UPI transactions worth 3 lakh crores were reported in August. In addition, electricity demand improved to 98 percent of pre-Covid levels in August. Passenger vehicles showed a 20 per increase from last year. Aug sale was 20 percent higher than July levels, with car sales of 2.3 lakhs. Two-wheeler sales also continued to recover, with better sales in August than July. There are six two-wheeler companies in India, and all of them have reported sales at levels seen in last August. 15 lakh units were sold in August. Manufacturers expect this number to touch 20 lakhs in the festive season in October. Month-on-month sales are up 28 percent, as compared to 12 lakh sales in July. Commercial vehicles are the only laggard, where sales have been slow. Tractor sales are also robust, at 65 to 80 percent growth in August compared to July levels. Lockdown exemptions to the farm sector have helped farmers harvest rabi crop and sow curry crops uninterrupted. As a result, we're expecting bumper harvest of food grains this year. All of this indicates that while the pace of recovery is not optimal, the worst is behind us.

The first quarter GDP contraction of 24 percent is not alarming to me. No other major economy of the world has had such a strict lockdown that's gone on for almost two-thirds of the quarter. Let's also not forget that we did not enter the pandemic on a strong footing. The economy was already showing signs of recession. Therefore, recovery will be uneven. And this is not just true for our country. Globally also, the divide has widened—between the rich and the poor, formal and informal, digital jobs vs jobs requiring physical proximity, permanent vs temporary workers, govts with more resources to spend on healthcare vs those that don't have large stimulus. Therefore, recovery will be two paced.

If you had a magic wand right now, what three main structural reforms would you go ahead with immediately?

Firstly, we need to focus on sectors that are job intensive, as 12 million jobs is what we need per annum. The typical sectors are construction, infrastructure, manufacturing, IT, and labor and knowledge related service sector.

Secondly, there is an urgent need for strong institutional government reform. Especially in public sectors, PSU companies must be empowered to take decisions instead of the need to go back to their ministries. Divestment and disinvestment are also of particular important. The privatization of public sector companies and selling of assets will create the much-required resources for the government. And it's evident that they're already taking active steps, for example, in the power grid and the railway IPO of 25 percent. Privatization and monetization of their assets is the way forward.

Thirdly, we need faster resolution mechanism. We need strong policies at the executive level to minimize court interference. This will also help boost investor confidence. 15 trillion dollars of negative yielding bonds is what we're looking at. And this is while global investors are searching desperately for higher yields. We can offer attractive returns to them in India. India has always had no dearth of solutions, but we fall short on implementation.

Given what's happening globally, does this crisis provide Indian businesses and the industry to gain a competitive advantage?

Many Indian comp have always been competitive. These companies will continue to grow. We need to play on our strengths. For India, that's the services sector–IT, professional services, knowledge hubs, digitization-led trade and services. The acceleration of globalization of financial services will benefit companies like Accenture. On the other hand, there will be deceleration of globalization of products because of trade wars, import barriers, etc. So, overall, the financial services sector has opportunities. In manufacturing also, we can win if we focus on specialization hubs like auto components, pharmaceuticals, high tech products, capital goods or chemicals. We must focus on areas where we have proven strength. Again, some sectors are more severely affected. There is ample dry powder in the global scenario. Some private equity funds have raised India-related funds. Many global investors are approaching me to take guidance on good opportunities in India. We are short on capital, and we seize this opportunity.

In terms of investing, the focus should be on companies rather than sectors. For instance, the IT sector did well during the crisis overall, but if an IT company cannot manage their staff or are not getting incremental business, they will fail. Similarly, constructed has been impacted heavily by the crisis, but companies can proposer if they look for new opportunities. There is huge demand for big data centers, warehousing and affordable housing. Developers that don't have large unsold inventory, are focused on affordable housing and aren't highly leveraged have been able to monetize their assets. Real estate stress existed even prior to the pandemic. So, it's essentially strong balance sheet, well capitalized model, strong management and strong governance system, and an agile workforce that can adapt to change that will differentiate winners from the rest.

Since very few globally large-scale companies are running operations in India, is scale a proxy for a well-run business?

India is primarily a domestic consumption economy. We have a massive population that fuels massive domestic growth. Penetration levels are very low, which is why I'm optimistic and even confident about massive scope to grow. Consumption is our strength; many households have been impacted by the crisis, especially where people have lost their jobs. But, there is also a growing middle class with strong aspirations for consumer goods. These will spur demand. Consumer credit as percentage of GDP is 30 percent in India–among the lowest for a large economy. In the US, it stands at 80 percent; in China, at 40 percent. This is a clear indication of the massive scope for growth. Banks are willing to fund homeowners. The scope for retail lending is enormous. We have just scratched the surface so far.

I see consolidation in several sectors. The government has also taken initiatives. So, while scale is important because we are a large country, even smaller companies and startups have a lot of growth opportunities.

Consumer demand is depressed, and people are being cautious. Can corporates do something to spur demand?

Companies need to bring products to people at the right price point. The government needs to ensure households have more disposable income. Jobs and improved infrastructure go a long way in boosting demand. There is no single mantra to handle a crisis of this magnitude, but there are enough learnings. The pandemic has enough impact to throw years of leadership away. The good thing is, Companies are increasingly learning to live with uncertainty–in tech, supply chain, people management, unstability in financial market, geopolitical risks, etc. So, the key learning really is—work culture matters immensely.

Decisions are better when culture is inclusive. Most comp have been forced into a reboot. From workspace to work from home to now back to workspace, companies are redesigning their processes and systems efficiently. Workforces need to be adaptable and flexible, and the time frame matters immensely.

Integrity and transparency are as important. They build trust with stakeholders, who will stand by you in difficult times if they believe in you. Trust is the glue of life; it is the key to effective communication. It is the foundational principle that holds all relations together. There is no substitute to being prudent. Don't fall for perils of greed and over leverage. Raise capital when you don't need it, rather than raising it when your back is against the wall.

Banking and the economic system are under strain. Lots of liquidity has been pumped in. Will banks become more risk averse in lending? Will corporates find it difficult to raise funds?

Central banks globally have been at the forefront in responding to the evolving crisis to ensure systemic stability in the financial sector. They have adopted massive quantitative easing programs in the US, Europe, Japan, and many other countries. They have offered loan moratorium and devised schemes to keep small businesses afloat. They have been buying assets, including mortgage-backed securities, corporate bonds, municipal bonds, and even junk bonds. In our country, on the other hand, the RBI has resisted direct asset purchase. That said, they have been successful in ensuring faster interest rate transmission and adequate liquidity for all sectors. Getting all levers to work in tandem is an achievement. The Indian economy was showing signs of slowdown in the pre-Covid era. The financial stress had built up and then increased further. So, a combination of prudent restructuring of assets will enable businesses to back on their feet. We cannot have more non-performing loans as it will weaken the already fragile financial system. The govt has given moratorium to individuals and companies of six months to not pay interest; they're also allowing us one-time restructuring, so we don't have large NPAs. There is recognition that some sectors have suffered more and have merited different treatment. These are unusual times, so we have to be more flexible.

How do you think digital tech wil help Indian industry rebound?

Digital is a huge driver. The path is non-reversible. Digital is our next billion-dollar opportunity. India performs best in a crisis. We know how to cash in on an opportunity in adversity. The pandemic might just be a catalyst to expedite pan-India digital health strategy to improve the delivery of services to begin with. We're on the cusp of significant change. Health care is a key component of India's next trillion-dollar economy. Healthcare breakdown is our pain point in terms of inadequate healthcare facilities, equipment and staff. That said, digital rests heavily on increasing investment in infrastructure, particularly telecom companies. We rank 129 out of 138 on internet speed in the world. The average 4G speed is India is lower than that in Pakistan, Myanmar and Sri Lanka. We have almost 700 million interest users, and there is potential to grow that number manifold. Therefore, it's critical to improve speed and penetration. There is also need for non-wavering policy. India must be seen as transparent and non-discriminatory if we want to attract global investment. International investors are eager to grab a share of India's digital and tech sector. Among the sectors that are growing due to a natural tailwind from the pandemic are online essentials, healthcare, gaming and online content. Foreign funds are even backing startups in robotics, IoT biotech and tech education in India.

The crisis has shown up disparities and weaknesses. What is corporates' social responsibility? Also, is there any role of public-private partnership (PPP) in socio-economic welfare?

Companies need to play their part in helping the vulnerable segments of the society. The government has done good work in the provision of food, promising 5 kg of wheat or rice and 1 kg of dal to 81 crore beneficiaries under the public distribution system at least until November so far. Another great initiative is direct cash transfers to the vulnerable sections. That's one way to increase demand. Free ration costs one and a half lakh crore. Fortunately, our food grains stocks are full, and we have enjoyed bumper harvests of 200 million tons. This is the fourth recession in India in our 73 years of independence. The last one was in 1980. Ironically, the first three were all agriculture triggered, as they were primarily because of failure of crops. This time it's the reverse, and only agriculture has shown positive growth.

Corporate India is giving lot of support. Employees are pitching in as much as they can. Corporates joined in as soon as there was demand to support the PM cares fund. We are shouldering the responsibility well. This is also while looking after their own people. PPP is the way to go in handling this humanitarian crisis. Then again, PPP has success stories and failures. It worked in healthcare, with all private hospitals charging government rates, even at the cost of losing money but this is an exceptional situation. However, it is not a success in infrastructure or power.

Any closing comments?

This pandemic has been very pervasive. None of us know if it's the new normal or new abnormal or, like Accenture says, the never normal. Six months after the lockdown, we're attempting to get somewhere to normal. We need to find a way to coexist with the virus. There are new cases because testing has been ramped up, and there is no cure in the near future. It's an evolving process. So, there is no one right way. That said, to our people's credit, despite being a noisy democracy, Indians have shown discipline, tolerance and compliance. This is despite a lot of struggle and hardship, part among the vulnerable sections who have to stay cramped up. The hybrid model is the way forward. Work from home is not the most optimum option. More companies are trying to increase the footfall to work while maintaining hygiene protocols. Humans need interaction and we thrive in proximity. Therefore, while work from home comes with flexibility, leaders need to think through ways of getting people back to work to normalize things.