

# The Anatomy of Rebuilding & Recovery

A CEO LOUNGE INITIATIVE

## The Road to Economic Revival

*In conversation with*



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# The Road to Economic Revival

*India's growth story has turned upside down in just five years. From a GDP growth of 7.5 per cent in the Jan-March 2015 quarter yielding India as the world's fastest-growing economy, it plummeted to a 24 per cent contraction in the same quarter of the current fiscal. While the pandemic seems to be the obvious reason, or was it an unavoidable crisis, is debatable, India must be the phoenix and rise from the ashes. The mood has changed from that of doom and gloom to shy, guarded optimism of late. Many have suggested that the worst is over and there is a shore in sight. Some of the industry's best-known thought leaders discuss the state of the economy and the measures needed for its speedy recovery.*

Words by Divya Sista



**T**he road to recovery is long and the journey exhausting. After one of the strictest lockdowns in the world, India and its economy reopened in June, staring at abysmal figures from all quarters. Now, 10 months into Covid-19, the impact of the pandemic on an economy already under stress has been devastating. The timing couldn't have been worse. India's GDP growth was already

slowing down — in 2019-20, it had fallen to 4.2 per cent, the lowest since 2002-03, unemployment had reached a 45-year high, to which the pandemic was the knockout punch. With some sectors benefitting and revenues exceeding pre-Covid-19 levels, some sectors have stumbled into darker alleys. The certainty of a vaccine around the corner gives hope that the uncertainty clouding the health crisis can now be addressed. The other edge

of the pandemic sword — as the worst global economic crisis in history — can now receive the full attention it deserves.

## THE ALPHABET SOUP OF RECOVERY CURVES

When the economy goes through a turmoil, estimates of its potential recovery swing between cheery optimism and depressing cynicism. Still, the economic recovery curve is crucial. What was pitched as a V-shaped recovery — a quick bounce back to normal after a dip — turned into U shaped, ran into W, and even L. Almost a year into the pandemic, it even threatened to slip into a K — where the recovery path splits into two sections, one recovering fast, exceeding its past prosperity, while the other section slips lower into the abyss. “The economy should resume normalcy in Q4 21 with growth ideally picking up pace in 2022. As an estimate, GDP growth will be sub 5 per cent in Q4 21 and inflation can be expected to be moderate, around 4 per

cent,” informs Sandeep Deshpande, COO, ISS Facility Services India.

No matter which alphabet, it boils down to the actions of governments and individuals. The government advocates expansionary policies in its attempt to stimulate the economy, while the individual practices austerity with a focus on essentials.

“When we look at last quarter’s results, it can be said that Indian companies have managed this pandemic reasonably well. Salary levels haven’t come down for most of the salaried class, even where sales were close to nil. The automobile sector picking up sales during the festive season, the rupee remaining reasonably strong are all positive signals,” explains JC Sharma, Vice Chairman and MD, Sobha Ltd.

## INDIA & BHARAT — READY FOR THE HIGHWAY?

So, there are things to cheer for. However, the larger question is how these rays of



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hope can be steered towards a way out.

As Neel Ratan, Managing Partner, North, PwC India remarks, “The two big questions now are if India is ready to play the game of supply chain disruption and balancing that with what we are witnessing across the world? And more importantly, is India doing enough to restart in terms of investment decisions, globalisation questions, easing business laws and bringing reforms.”

Now more than ever, digital transformation and harnessing the power of technology are posed to be force multipliers and a key industry driver, at once. Big-tech companies like Microsoft, Facebook and Amazon have invested close to \$17 billion, setting the tone for other companies to follow.

A growing anti-China sentiment had tipped the scales of consideration in India’s favour, with companies across the world looking at India as a possible replacement. This has given much-needed respite to a few SMEs for whom international business made up for the lack of demand from the domestic sector, given the lockdown.

“India is being looked at as a strong alternative as seen in the case of iPhone shifting its manufacturing. India has

answered some questions with panache. We have a few strong areas like the two-wheeler market, pharmaceuticals, robust R&D, good cash reserves, and a stable political environment. How do we compete with China, which has an unshakable ecosystem, stable supply chain cost and unmatched quality, is the bigger challenge,” says Anuj Kalra, CFO, Ophthalmic Devices, Carl Zeiss.

### **IS SELF-RELIANCE THE FORMULA FOR SUCCESS?**

India’s first relief package of ₹1.7 lakh crore announced in March focused on food security, injecting liquidity, support to the poor and tax concessions. The second, much bigger stimulus package of ₹20 lakh crore focused on *Atmanirbhar Bharat*. While this stimulus did provide an impetus to MSMEs, industries and individuals, it has not delivered the desired economic results. Especially for MSMEs, demand revival and interest rates on new credit lines remain key signposts. The government has further announced a fresh round of stimulus of ₹1.5 lakh crore, followed by a production-linked incentive programme worth ₹2 lakh crore spread over 5 years and 10 sectors.

India has a history of missing busses and the call for becoming *Aatmanirbhar* should aid self-reliance while deriving the most out of shifting tectonics as global supply chains reassess themselves owing to financial reasons (trade-wars) and non-financial reasons (the anti-China sentiment).

“India should focus on overhauling its labour laws. They are outdated, unions are immature, labour law compliances are long and unproductive to the organisation. This only makes the organisation incompetent which hinders growth,” points out Kalra.

India’s arsenal has been predominantly services driven. But the positive indicators of unlocking have not been as strong as the negative indicators of the lockdown. The services economy has been shredded and needs immediate support beyond the stimulus packages announced.

“While *Aatmanirbhar Bharat* is an excellent initiative, for it to be successful, it should have a well thought out exit strategy, and enable greater flow of credit to affected sectors. For instance, MSMEs should get direct credit assistance by way of credit guarantee fund in partnership with banks, protect jobs by covering partial

fixed costs in the affected sectors till real economic activity begins, relook at GST rates, especially for select essential supplies and healthcare products and provide additional export benefits under Make in India,” details Deshpande.

### MICRO ANSWERS TO FORCE MAJEURE

There is an increasing shift in consumer behaviour in the wake of the pandemic – right from spending patterns to investment decisions. With a decreased disposable income, the focus is on need-based purchases and commitments over want-based indulgence. There has been a significant decrease in lending, especially in large ticket sizes which resonates with the economic scenario. Industry experts predict that there would be a reduction in ticket size, increased digital platform-based lending and decreased demand for guilt-free loans/credit card usage.

Economic data has been one of the pandemic’s victims too. It is difficult to accurately depict the whole picture with the data available. For instance, an increase in retail footfall and sales is a positive signal. But it is unclear if this is



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the result of pent-up demand or is real demand. Small businesses and SMEs with tight working capital cycles, and no cash to spare, have been hit the hardest. They are also recovering faster owing to their agility. A huge pillar in keeping these enterprises up and running is the extension of credit. In India, the banking system cannot cater to all segments despite its widespread network.

“In a country of 1.3 billion, where 42 per cent of adults have borrowed, only 8 per cent have borrowed from formal institutions. Unless there is inclusive growth, a 9 per cent GDP is impossible. Pension penetration, remittance opportunities and insurance cover are areas where the figures aren’t encouraging. The RBI policies are framed such that the runway for a financial inclusion entity is large and clear,” explains Manoj Nambiar, MD & board member, Arohan Financial Services and Chairman MFIN.

As India limps back onto its unlocking process post-lockdown there is a great demand for credit at the bottom of the pyramid. They need money to restart livelihoods. Pressed for cash, with very limited sources, no access to formal credit and a desperate situation like the pandemic, people often fall prey to loan sharks. The answer, bridging the gap

between a bank/NBFC and a money lender is an MFI or microfinance institution.

“Microfinance is a sector about which very little is known to anyone outside it. In India, MFIs lend to around 60 million people, impacting 300 million lives. Ninety-nine per cent of the borrowers are women, where lending is pioneered by a group lending model. Social capital is used as security to give unsecured loans.” Nambiar adds.

Another crucial cog in the wheel is real estate, which is the third-largest sector in terms of direct, indirect and induced effects on the economy. With a cascading effect on other manufacturing industries like cement, steel and infrastructure, this sector is a huge employment generator, and its revival is crucial to the economy.

“Real estate was going through a churn and was being consolidated even before the pandemic because of the RERA Act, transparency from GST, IBC policy, REIT platform and other reforms. Knowledge of the product was getting better. Things are looking hopeful, and we are confident they will be back to normal from both the demand and supply side,” reasons Sharma.

## **TECHNOLOGY — THE EQUALISER, THE ENABLER**

Over the last decade, India has put together a robust technology framework,

backed by data, linking bank accounts, UID-based Adhaar and mobile numbers. Technology is a powerful tool to transform and needs no introduction, and India has several success stories in this arena, like digitisation of passport issuance, land records and direct benefit transfers. This architecture is put to other uses now, to layout power and adopt systemic reconstructions.

“Larger socio-economic issues like corruption can be tackled using technology. Used in the right way it can transform the way we work. Used properly, it can delineate the power at the hand of the officer to use discretion or favour. The pull and pressure of the society play an important role in driving this,” outlines Ratan.

The role of technology has evolved through the pandemic, from being an enabler to a successful manager of business continuity, as seen through remote working and Zoom schools. New technologies can help foster inclusive growth and this holds good for India more than anywhere else given that the infrastructure is already in place, and “the internet is the new electricity” outreach.

It has also helped that India is home to a large number of professionals constituting the knowledge economy, which has not been monetarily hit directly by the pandemic.

“Information technology is a soft

power for India. It has become the back office for many Fortune 500 companies,” points out Sharma.

When used right, technology has the potential to facilitate collaboration, communicate and fast track the whole recovery process. As India moves from “lives over livelihoods” to “lives and livelihoods”, using technology as a catalyst to accelerate the chain reaction is vital. This can be prominently seen in rural India in places not affected by Covid-19, economic activity has gained momentum. Credit lines, micro-finance lending and financial literacy classes are majorly through an online mode.

“With the sowing season around, the primary sector has resumed most of its activity. We have reported over 70 per cent collections, which is a clear indicator that the bottom of the pyramid is looking forward to life and rebuilding their lives,” puts in Nambiar thoughtfully.

There are various narratives to the Covid-19 crisis. Many of them assure that there is a light at the end of the pandemic tunnel. It is going to be a long, gruelling journey and the most challenging parts haven’t begun yet. At every level of the economy, resources are shrinking and everyone is forced to make tough choices on where these limited resources should be allocated. That said, there are green shoots we can cheer for with the vaccine around the corner.



*“Is India doing enough to restart in terms of investment decisions, globalisation questions, easing business laws and bringing reforms?”*

**Neel Ratan**  
Managing Partner, North, PwC India

## TAKEAWAYS

**The worst is over, but the biggest challenge has begun**

With vaccination about to start, it is time to focus on rebuilding the economy.

**Resilience and agility are key**

The mental framework of organisations to sit up and get back on track matters the most.

**Technology cannot be ignored anymore**

It is the only shortcut to offset the setback caused by Covid-19.

**Turn the crisis into an opportunity to reset**

Smoothen creases, employ reforms and get the economy back on the highway.



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