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EFFECT OF CORPORATE COMPANIES IN INDIA POST COVID

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ABSTRACT
The COVID-19 outbreak has put the global economic scenario out of order. The mechanism of lockdown and social distancing has paved a grave situation for global trade in general and services in particular as they are inseparable and requires proximity between the supplier and the consumer. In view of the outstanding contribution of services in India's foreign trade, this study examines the impact of the pandemic on aggregate, sectoral and mode-wise services exports from India. It ultimately seeks to highlight key opportunities, challenges and suggestions to protect and promote India's services interest amid this global disruption. We review the quarterly and monthly services exports patterns from January to July 2020 based on the data obtained from the World Trade Organization and the Reserve Bank of India. The perspective on mode-wise services exports is derived from the Trade-in Services by Modes of Supply (TISMOS) data set of the WTO for 2017. The analysis highlights a severe drop in overall services exports, by over 10% during the second quarter of 2020. Travel, transport and financial services have been hit hardest. However, the decline in India's services exports found as relatively much lower in comparison to other major services exporting economies. The comparative edge in digital or Mode 1 services offers greater opportunities for the country in the longer period if urgent policy initiatives and support are extended to potential online services sectors.

KEYWORDS: ***COVID-19, Services Expose, Pandemic, Challenges, Opportunities, India***

INTRODUCTION

Covid-19 will change the way the world works; just like the Great Depression, dot-com bubble, and the 2008 financial crash did in the past. The question on everyone's mind is, 'Will things go back to normal?'

I've been pondering, like many have, what fundamental changes will take place in how people, businesses, and economies function. The next 12 months will be difficult. Many businesses will struggle, some may even die. But as with economic adversities of the past, new industries will emerge bringing with it renewed hope of recovery. Eventually, things will go back to normal. Just that we'll have to change the definition of normal.

Welcome to the New Normal.

In this article, I will explore the impact of COVID-19 on the Indian economy. If you'd like to understand what this means for investors, read my article about investing during COVID.

A BRIEF HISTORY OF PANDEMICS

This infographic on the history of pandemics is insightful and hence I won't touch upon it.

While Covid-19 may not have the scale of pandemics of the past (as of date), the economic damage has and will continue to affect more people than the disease itself.

WHERE IS THE EMERGENCY EXIT?

Studying past trends of similar infections can help in drawing inferences as to what might help us going forward. What would it take to see this pandemic through?

- Mass Vaccination
- Herd Immunity
- Social Distancing

There's a high likelihood we're 12 months away from a semblance of normalcy. The biggest worry is a mutating virus that brings wave upon wave of attacks, each deadlier than the other. During the course of time that Covid-19 lasts, businesses and the global economy will continue to be significantly impacted.

LIFE IN THE TIME OF COVID

It might be a mouthful but here's a look at what's to come in the immediate future. Liquidity is expected to remain tight as the cost of borrowing in real terms will jump upwards. This is despite central banks' efforts to reduce interest rates. Banks and financial institutions will be under immense pressure as the fear of NPAs, insolvency and bankruptcies

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increase multifold. The government will focus on meeting hyper demand for essential goods while non-essential businesses will focus on recovering their receivables/outstanding money due from debtors. New strategic alliances or business partnerships will not emerge during this period.

If these were lyrics to a song, the specific genre would be doom metal.

I don't want to sound like a pessimist – the road forward looks rough. While there are sectors and businesses that will benefit, the prognosis is rather grim. In my best guess, here are some of the sectors that will be adversely affected and others that will see an uptick.

ADVERSELY AFFECTED SECTORS

- Apparel & Textile will get hit adversely due to disruption in labour supply, raw material unavailability, working capital constraints and restricted demand due to limited movement of people and purchasing ability.
- Auto sector (which includes automobiles and auto parts) will continue to face challenges on account of lack of demand, global recession and falling income levels.
- Aviation & Tourism is one sector which has the highest probability of going under without direct government intervention. In the next 12 months, it's highly unlikely people will travel for leisure apart from very essential travel.
- Shipping and Non-Food Retail – Non food retail chains and global shipping businesses will find this 12 month period very challenging.
- Building & Construction businesses are generally leveraged and hence will face the dual challenges of high-interest payments and lack of sales.

COMPARING DEBT TO EQUITY RATIO OF SECTORS

Sector	D/E Ratio
Real Estate	0.86
Information Technology	0.11
Consumer Staples (FMCG Food)	0.49
Financials (Investment Banking and Brokerage)	0.083

Broadly, anything which involves personal interaction will face problems in the next 12 months – real estate or big-ticket items/luxury products.

SECTORS WITH A POSSIBLE UPTICK

- Digital & Internet Economy: Online based products & services companies will find new takers
    - Ed-tech and Online Education along with firms involved with online-skill development
    - Online groceries
    - There will be a sudden spike in the demand for Content, with digital content being in demand more than ever.
- FMCG & Retail will benefit immensely. With continued fear, food-based retail chains, and companies catering to low-ticket consumption demand will emerge as winners.
- Speciality Chemicals: Firms dealing in Chemicals will see a jump due to increased demand for disinfectants, drugs and medicines.
- Pharma: Pharmaceutical firms are set to see growth in the near term.

Performance of Sectors during COVID-19
Line chart with 4 lines.
Sectoral data is from respective smallcases
View as data table, Performance of Sectors during COVID-19
The chart has 2 X axes displaying Time and values.
The chart has 1 Y axis displaying values. Range: 50 to 150.
Sectoral data is from respective smallcases6. Jan20. Jan3. Feb17. Feb2. Mar16. Mar30. Mar13. Apr27. Apr5075100125150.

PEERING INTO THE FUTURE

Predictions; Anyone can do it, everyone does. It doesn't cost anything and does no harm. Not in my line of work.

As an investment professional, I'm responsible for the management of over $250+ million in client money. My job is to make bold predictions and then take calculated risks with the objective of growing my clients' capital. Like everyone else with an opinion, here are some of my thoughts on the New Normal for Business.

But before that, a disclaimer, I'm not a crystal-ball gazer and have no powers beyond my understanding of macro trends and financial markets. Take this with a pinch of salt. Here goes.

THE NEW NORMAL FOR BUSINESS

Hits the fan so that fertilizer can rain', an obscure relationship 'expert' & author, was thinking about global upheaval when she wrote those words. But relationships do have something in common with the current situation – heartbreak.

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Many lives will be lost and millions more affected. Countries will introspect, businesses will realign. But as Jackie's 21st-century take on turning lemons into lemonade goes, there may be a silver lining. We may have to wait for the rain clouds to depart.

CHINESE WHISPERS

Having seen off the worst of the coronavirus wrath, China is limping back to normal. They will continue to remain a dominant exporter of raw material as well as finished goods, but businesses will ensure dependency on China is reduced. With all the talk of this being China's moment, will they be able to capitalize?

TECHNOLOGY & FUTURE OF WORK

Technology for many businesses, until today, was considered to be a support function with it being used to get to an end. This is set to change as technology will now become the frontline requirement in most organizations. Its importance will be comparable to that of revenue-generating functions – sales and business development.

Trends will accelerate. Automation will gain momentum as the spend on sophisticated IT infrastructure outpaces human resources. Job creation will be limited with more offers being rolled out on a contractual basis than on a full-time basis. This sort of gig economy will emerge in the emerging markets as well as the more developed markets. Work from home will be the new normal. Firms in some sectors will realise that employees working from home are equally productive as compared to when they are working from the office. This will also help in saving infrastructure costs.

Non-environment friendly businesses will be looked down upon in terms of business valuations and focus on ESG (environmental, social, governance) will be a new way forward. Cities have already started thinking about sustainable development models. New, more compact and agile value chains will emerge, as non-essential intermediaries are given a back seat. This will also drive employee/labour productivity and efficiency.

BACK TO BASICS

Businesses will rethink their strategy of focusing on sales without profitability/profitability growth. Organizations claiming hefty valuations just on the basis of sales growth will no longer find buyers – focus on profit and profit growth will be the new normal

Data will become even more valuable, and with it, data misuse through AI will also become rampant. We're already seeing governments and private entities roll out contact tracing tools which have poor implementation and pose severe threats to data security and privacy. As these entities have realized, data can play a huge role in limiting the impact of viral phenomena – diseases, protests, misinformation the list goes on.

Data and IT security will become even more important for businesses. Traditional businesses, including heavy industries, will find it difficult to survive without access to information that would help with optimization and extracting efficiency.

TEMPORARY DEATH OF DEBT

Asset heavy businesses like the ones related to oil, commodities, infrastructure will move to an asset-light model where financing of their activity would happen through public trusts, REITS, INVITs like structures. Equity financing would take over debt financing as businesses become reluctant to take on leverage.

ALL ABOUT THE MONEY

Finally, big financial conglomerates with large balance sheet exposure will become history. We'll see the emergence of specialized segmental lenders who will strive to make better lending decisions through AI & social intelligence. Traditional lenders will exit the game.

MAJOR TRENDS – THEMATIC PLAYS

Countries like China & India stand to benefit from low crude-oil prices and a younger population which can kick in low-ticket consumption demand. While the world is currently dominated by right-wing politicians who propagate the concept of 'Make Local, Consume Local', the world will find comfort, once again, in the arms of capitalism. Free markets and abolishment of trade restrictions can be expected in the post-Covid era.

Money will ultimately win. Most businesses that manage to survive the Covid-era financially will have the ability to emerge victorious. As they say, "You need to live, to be in the game". Internet-based B2C businesses – lending, financial services, and need-based solutions will stand to gain. Once the world sees through this pandemic, there will be a jump in rental demand, entertainment, travel and tourism. The cement, transportation, construction material, waste management, metals and commodities sectors will also see an uptrend.

The paper industry is one that has the highest chances of getting wiped out as the world looks to adopt environmentally friendly ways to live. As stated earlier, digital will be the new normal.

COVID-19 IMPACT ON INDIA'S ECONOMY: CHALLENGES & SOLUTIONS

There is no doubt that COVID-19 will have a large impact on the Indian economy. With respect to

India, the discussion can be bifurcated into 2 parts – India's economy, and its stock markets.

The recovery of the underlying economy will be slow, and it will take around 2 years for normalcy to come back across sectors. While the overall economy might take a hit because of the government lockdown, some sectors are set to see immense growth in the post-COVID era – FMCG, B2C specialised lenders, gold-dependent companies, food retail and pharmaceutical companies to name a few.

Stock markets have a mind of their own, formed by the collective emotions + intelligence of millions. They are often skewed and aren't the best indicators of the underlying economy. Stock markets will have a strong recovery, not due to the fundamentals strength, but due to global liquidity which is available for almost free (as interest rates tend to near zero). Availability of debt capital will be scarce in India, whilst equity capital will be available in plenty over a period of time.

WHAT CAN THE GOVERNMENT DO?

Like its counterparts across the globe, the Indian government has announced a slew of measures to prevent total collapse. However, it isn't enough. This works to alleviate some of the pain, not counter it. My 2 cents (or one barrel of oil) on what the government ought to do:

- Loosen its purse and spend money on infrastructure development –
- Public sector financial institutions need to be further capitalized and nudged by the RBI to lend out low-ticket loans below INR 1 Crore in the form of working capital to ensure that liquidity comes back into the system
- Banking sector needs to be nudged to pass on rate cuts induced by RBI to the borrowers
- Personal tax cuts & tax holidays for 6 – 12 months can be adopted to revive consumption, which will help spur economic growth

These are not an exhaustive list of measures but could help alleviate the impact of COVID-19 on the Indian economy while stimulating growth.

COVID-19'S IMPACT ON SOCIETY

Before we end, let's look at some of the behavioural/societal impacts that Covid-19 might have.

During the course of the pandemic, people will be using digital medium for content and entertainment. Events that require massive gathering of people – sports, music festivals, theatre, etc. will take a hit for the next 12 months.

As the world overcomes this pandemic, discretionary demand will pick up as people become imprudent. Retail leverage in the world will hit new highs. The use of addictive material – tobacco, narcotics, alcoholic beverages will jump multifold.

The next 5 years are going to be the golden period for media and entertainment. 3D/4D chatrooms and conference rooms will emerge rapidly. The largest chunk of media spending will shift from television to digital. Print media will cease to exist.

Businesses will experience an increase in productivity due to reduced staff. Remote work will see an uptick. The burden on local transportation infra will ease. Fewer roads, less traffic & pollution.

CONCLUSION

This may be the time to reset. Never before has the world come to a standstill where one can pick apart the many moving pieces – like Tom Cruise in Minority Report. We have the opportunity to rethink everything. If we do things right, we may be able to fix challenges that face humankind – environmental damage, inequality etc.

More importantly, we must ensure something like this never happens again. History says that humankind has never learnt from history. Let's hope that it's a thing of the past.

"June or July will tell us which way the tide is turning. The shortage of vaccination is creating a little bit of setback.

Businesses will be keenly watching what the government does next on the economic front, although it has to first bring the healthcare crisis under control.

"Government needs to come out with a strong policy and create a strong investment climate; otherwise it would be very difficult for many sectors to continue operating...Last time corporate India came in and did whatever was needed, but I think this year they would not have the wherewithal," said Praveer Sinha, CEO, Tata Power.

The government needs to explore ways to revive private investments in these uncertain times if it wants to mitigate the economic impact of the second wave, feel global investors.

"When there is uncertainty and volatility, investment is held back and that is what we are seeing and that is why despite all the positive steps that should have helped private investments to happen, private investments haven't stepped up and that is really what we need to be thinking, about how we can bring in investments in these uncertain times," said Anita George, executive vice-president and deputy head of CDPQ Global, Canada's second largest pension fund.

To be sure, while the second wave is a grave concern, corporate India remains optimistic that the measures taken by the government last year and the Union budget has put in place the building blocks needed to push growth. "What was good about the budget was that we decided to live with higher deficit and growth was recognized to be the need. India is still looking good. This can be a deterrent and, yes, we have to be well-prepared, but the service economy has been growing for India. In this pandemic, India has proved to be the best BCP (business continuity planning) site for services in the world," said Kaku Nakhate, president and country head-India at Bank of America.

Other measures enacted by the government such as increasing the FDI cap in insurance will also help the country attract long-term capital.

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