LAKSHMISHREE
Gateway to your Financial Goals

MONTHLY OUTLOOK
MARCH 2021

THE MONTH OF BULLS

www.lakshmishree.com

From Managing Director's Desk To Readers

KEY TAKEAWAYS FOR INDIAN ECONOMY in view of the Government's policy of "Government has no business to be in Business – PM Modi"

This Month we are glad to take a look at key takeaways from Prime Minister Narendra Modi's speech during the webinar on privatization held by the Department of Investment and Public Asset Management.

It becomes all the more important to have a genuine understanding of this very important aspect of our economy since it has a major impact with regard to our countries economy and its future. Let's understand what PM Modi did convey and the magnitude of those messages for the country.

PM Modi said –"Government has no business to be in Business, Government's focus should be on Public Welfare"

PM Modi insisted on revitalizing the Public Sector Undertakings by Privatizing Non-strategic business fields.

Prime Minister Narendra Modi commented that the government has administered full commitment to privatize the Public Sector Undertakings. (PSUs). The privatization addresses the demand for uplifting the public sector industries that have been engulfed with issues of inefficiency, mis-governance and need to bring in business minded approach to these sectors/industries.

The Emphasis was on making the country self-sufficient and improving the quality of production by giving businesses the opportunities to develop in remote areas of the country. Developing small-scale industries is most crucial for uplifting the economy as a whole.

It's very critical for economic of a country that its linkages of the small units with the big manufacturers are synchronized and seamless in its operations. And if the streamlining process is disrupted the whole economy suffers heavily.

"Government is going ahead with the Mantra of Monetise & Modernise"

The government also stressed working towards the mantra of "monetize or modernize" to benefit the citizens of India.

The government's mindset, as of now of affirmative action instead of passive progress about their decision on monetizing and privatizing the Public Sector Undertaking (PSUs) can have a ripple effect on the country's economic. It can help the economy to gain massively in terms of growth in the coming years if things go as planned and envisaged by these initiatives.

The sole motive of the Government is to take India to a high growth trajectory. It is a challenging task of proper coordination of the Government and the Private sector. If this is achieved effectively and efficiently, we can achieve economic growth of the scale and size that other countries aspire of.

Government has many un- utilized and underutilized assets. To start with, 100 such assets will be monetized to garner 2.5lakh Crores.

When Government engages in Business, It leads to losses. The Budget has given clear Roadmap to take India to high growth Trajectory.

The Finance Minister Nirmala Sitharaman through her announcement in recent times of privatizing two public sector banks has indicated what's to come by and what could be the next revolutionary move of the Government for the citizens. This is by far the biggest announcement in recent years, as it purviews the way the industry is going to look forward in the upcoming weeks, months, or years.

It has reaffirmed the Government's stance of pushing out of all non-strategic businesses and keeping minimal focus in 'strategic business fields'. The PM said the centres' policy was either to monetize or modernize state-run units and added that the vision of Budget 2021 has motivated the Government to reach staggering heights with all round growth and development to benefit all the citizens of the country.

"If the country needs the public sector, the role of the private sector is also as important…If India is of any use to humanity today, our private sector has had a big role in it," PM Modi told the Lok Sabha.

Understanding the concept of Monetize or Modernize

Monetizing or Modernizing has become the need of the hour, along with involving more people into the industry and hence creating more job employments. PSUs have been working on the same rigid principles and approach for a long time, and the infusion of new creative thinking and global standards is the need of the hour.

The Government is bound by rules and at critical times lacks the courage to take bold commercial decisions. When the Government Monetizes, that space is filled up by the private Sector. Private sector brings in Investments and Best Global Practices with Them.

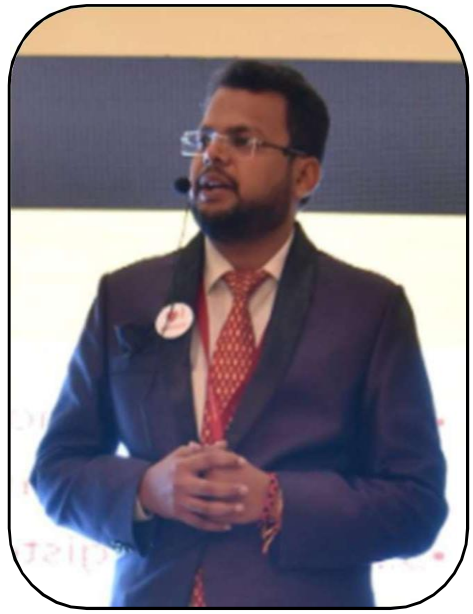
The exceptional efforts of the brightest minds should be rewarded with incentives, so that the circulation of the money goes through the market and more people can benefit from their investments into massive projects.

Wealth creation is a factor of utmost importance to the economy, as it enhances India’s prestige globally and makes India the top-notch market for foreign investors to invest in our economy.
The government intends to opt out of the governance of business undertaking so that there is clarity and goal-driven activities are conducted in these enterprises to bring in efficiency, profitability and massive growth.

PM Modi had a strong pitch that the government will pull out of non-strategic sectors and listed 18 strategic sectors, including banking, insurance, steel, fertilizer, petroleum, and defense equipment, where it would retain only a limited presence.
This Policy if implemented fairly and quickly can lead to economic growth, additional employment opportunities and creation of many world class companies /industries in our country. That’s a very heartening thought of hope for our beloved country.

-- <u>Salil Kumar Shah</u>

Rising Bond Yields in US Economy and Its Major Implications for INDIAN EQUITY MARKETS



The Last week saw the Benchmark Treasury yield in U.S Markets hit a one year high causing a selloff in the global Equity markets. The NASDAQ which represents the Tech shares did take a severe beating and most tech stocks were trading at their weekly lows.

The commodities prices globally extended gains leading to fears of inflation in most economies of the world. All these had an effect in the Indian equity markets too with the financials and Technology stocks falling during the week with some commodity stocks gaining on the back of global commodity prices upsurge.

Generally speaking the Implication of Higher Bond Yields for the Stock Markets is as follows:

Once the Bond yields starts to move higher, People tend to shift funds towards bonds by selling stocks. So a Gradual shift in sector allocation happens from Stocks to bonds.

Another implication is that higher yields imply higher discounting rates. Higher discounting rates imply lower present values. Hence the stock valuations come down a little bit.

A more profound way of looking at this higher bond yields is – All other things being equal, rising interest rates would mean higher borrowing costs. This in turn gives margins and companies earnings a hit. We are discounting future (lower) earnings of companies at a higher discount rate.

Some portfolio managers and foreign institutional investors would prefer to choose a bond or Debt – free company over other company stock. Normally this sort of situation doesn't sustain for longer period of time.

In other words, the sooner the U.S Treasury yields stabilises and comes down to reasonable yearly average levels, the better for the global equity markets. The Indian equity markets take heart from the good Gdp numbers and strong results delivered by most companies in the last quarter.

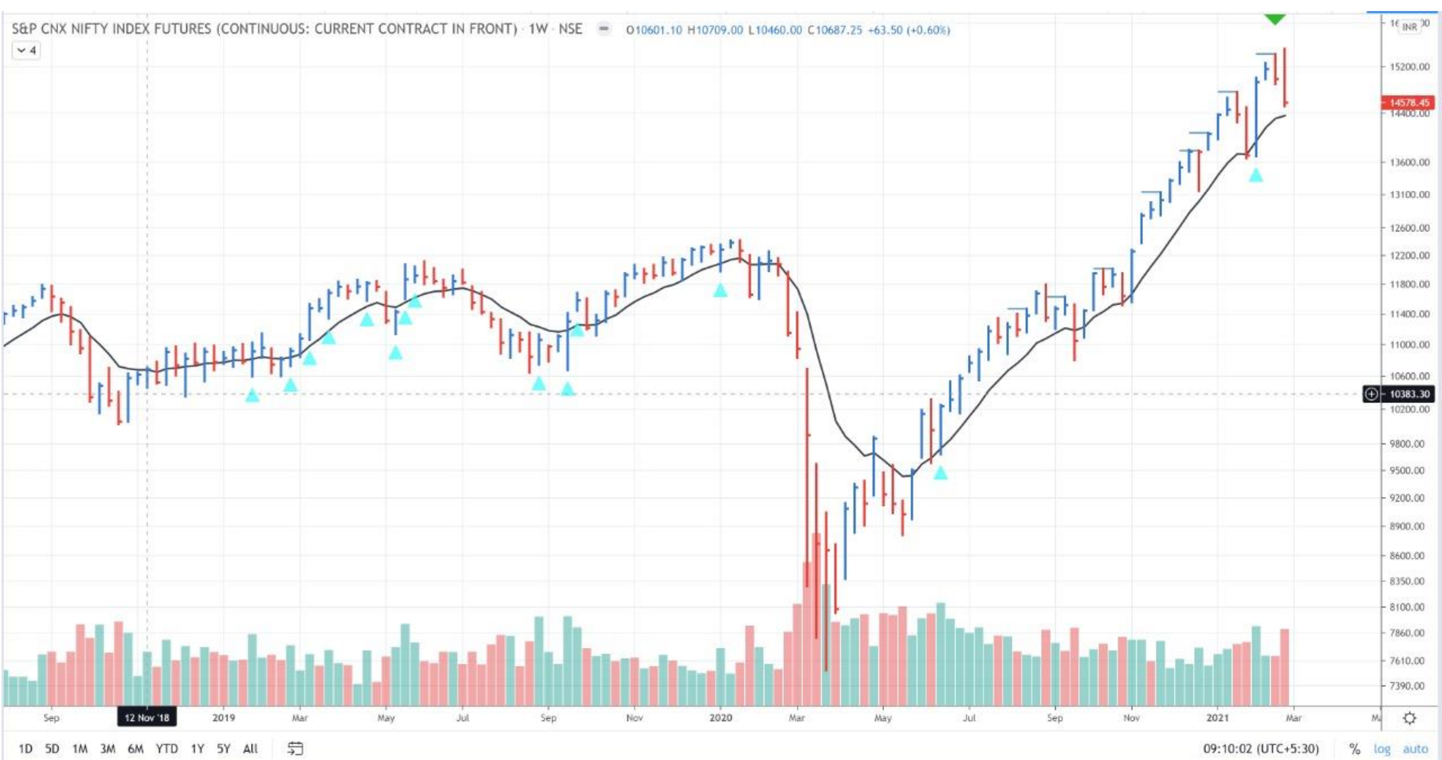
To sum up, the latest news on Friday of the bond yields stabilising a bit means that the Rising bond yields has already done the damage to the global equity markets and further deepening of the selloff in equity markets seems less likely for this reason.

The most likely scenario if of the Indian equity markets to focus on the domestic new flows in the coming weeks to take a directional call of where the markets are headed.

Anshul Jain
Research Analyst

Look What Our Research Analyst Has To Say You…

The month of Feb has ended on a heavily bearish note for the bulls as the monthly candle is bearish outside closing at its low. Only positive for bulls is it has close just above 10week moving average(50day sma). The entire rally from the lows of 7526 has been vertical in nature with shallow corrections so a deeper correction looks eminent at current juncture of the market. An immediate support is placed at 10week sma of 14360 and a move below that will retrace 25% of the entire move from 7526 to 15524 placed at 13524. Hence we are now bearish on the markets in terms of profit booking and a time wise correction which may last for a few weeks to months. Any and every rally 15000-15022 zone should be used to exit longs and aggressive participants can open shorts from a medium-term perspective. On the INDIA VIX front the index has given a major breakout from 9 months old rectangle pattern at 26.33 and is heading to test the first resistance of 35.30 which will have its rpple effects on equity as well as forex markets. USDINR has also given a bullish breakout of a year old falling trendline and tested first target of 74 and should head to test 76 odd levels. A combination of rising VIX and depreciating Rupee will definitely put pressure on Equities on the downside. Hence 13600-13500 zone will be out initial downside target for coming months.



STOCKS TO WATCH

www.lakshmishree.com

1. GODFREY PHILLIPS INDIA LTD.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Cigarette	Rs.907.85	Buy on dips to Rs.868 and add more in the Rs.796	Rs.965	Rs.1061	2 quarters

Shree Varahi Scrip Code	GODFRYPHLP
BSE Code	500163
NSE Code	GODFRYPHLP
Bloomberg	GP:IN
CMP Feb 22, 2020	907.85
Equity Capital (cr)	10.40
Face Value (Rs)	2
Eq- Share O/S(cr)	5.20
Market Cap(Rscr)	4756
Book Value (Rs)	421
Avg.52 Wk Volume	406941
52 Week High	1394.80
52 Week Low	732.40

Share holding Pattern % (Dec, 2020)	
Promoters	72.55
Institutions	12.86

Our Take…

Godfrey Phillips is the second-largest player in the Indian cigarette market (~12.9% of market share), with deep penetration and has presence across 800000+ retailers through its 800+ distributors, and 6000+ salesman. The company owns top of the mind brands like Four Square, Red and White, Stellar etc. It manufactures and sells Marlboro in India under a license agreement with Philip Morris. Apart from this, it also has presence into chewing products, mouth freshener, confectionery segment and retail. The Company has posted strong RoE/RoCE of 18%/24% in FY20 with debt-free status and liquid balance sheet. Godfrey is trying to gain a foothold in South India after firmly establishing itself in the North and West. It has already met with initial success in Bangalore with Marlboro branded cigarettes.

The company has a strong track record of consistent free cash flow generation along with high margins which have been gradually improving from 13.9% in FY16 to 20.6% in FY20.

Cigarettes and other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Amendment Act, 2020 can impact adversely volume growth and realization going forward.

Valuations & Recommendations…

We expect that the company will get benefits from the strong market share with volume growth, good presence over the north & west region with expanding presence to South region, leading market position, improving realization & EBIDTA / stick, decent financial which would lead to 5% CAGR in top-line and 9% EPS CAGR over FY20-23E. Moreover, recent tax reform would also boost the profitability for Godfrey, as the company was paying ~32% taxes in the previous years and which will come down to 25-26%. We feel the base case fair value of the stock is Rs.965 (10.1x FY23E EPS) and the bull case fair value is Rs.1061 (11.2x FY23E EPS). Investors could buy the stock on dips to Rs.868 (9.1x FY23E EPS) and further add on dips to Rs.796 (8.4x FY23E EPS).

FINANCIALS

INCOME STATEMENT

Particulars (Rs cr)	Q3FY21	Q3FY20	YoY-%	Q2FY21	QoQ-%	FY19	FY20	FY21E	FY22E	FY23E
Operating Income (Net of excise)	706	761	-7%	701	1%	2,497.2	2,876.6	2,694.8	3,039.2	3,372.7
EBITDA	167	167	0%	154	8%	403.0	591.6	519.0	582.2	643.4
RPAT	123	114	8%	103	19%	259.9	384.4	380.5	411.4	494.7
Diluted EPS (Rs)	23.61	21.93	8%	19.89	19%	50.0	73.9	73.2	79.1	95.1
RoE-%						13.6	18.2	16.1	15.3	16.4
P/E (x)						18.3	12.4	12.5	11.6	9.6
EV/EBITDA (x)						11.7	8.0	9.1	8.1	7.3

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Revenue	2326	2497	2877	2695	3039	3373
Growth (%)	-3.2	7.4	15.2	-6.3	12.8	11.0
Operating Expenses	2067	2094	2285	2176	2457	2729
EBITDA	258	403	592	519	582	643
Growth (%)	2.1	56.0	46.8	-12.3	12.2	10.5
EBITDA Margin (%)	11.1	16.1	20.6	19.3	19.2	19.1
Other Income	54.6	79.1	106.9	135.0	150.0	195.0
Depreciation	98.4	98.6	155.2	135.5	142.0	148.2
EBIT	214	384	543	518	590	690
Interest	1.7	1.0	30.2	28.2	41.8	30.7
Shares of Profit in Joint Ventures (net of Tax)	0.0	0.0	0.0	0.0	0.0	0.0
PBT	213	383	513	490	548	660
Tax	74.0	122.8	128.7	109.8	137.1	164.9
RPAT	139	260	384	380	411	495
Growth (%)	1.2	87.1	47.9	-1.0	8.1	20.2

BALANCE SHEET

As at March	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS						
Share Capital	12.0	12.1	14.6	14.6	14.6	12.0
Reserves	704.4	778.3	968.5	1192.6	1455.6	704.4
Shareholders' Funds	**716.4**	**790.5**	**983.1**	**1207.2**	**1470.3**	**716.4**
Long Term Debt	69.2	240.9	215.6	150.6	110.5	69.2
Net Deferred Taxes	-15.9	-23.0	-28.0	-20.7	-25.4	-15.9
Long Term Provisions & Others	11.7	250.8	218.3	248.3	269.0	11.7
Minority Interest	**0.0**	**137.1**	**176.1**	**210.1**	**250.5**	**0.0**
Total Source of Funds	**781.4**	**1396.2**	**1565.1**	**1795.6**	**2074.8**	**781.4**
APPLICATION OF FUNDS						
Net Block & Goodwill	168.8	858.4	847.1	838.4	840.4	168.8
Other Non-Current Assets	297.0	141.7	58.1	59.2	60.3	297.0
Total Non-Current Assets	**465.8**	**1000.1**	**905.2**	**897.6**	**900.7**	**465.8**
Trade Receivables	208.5	315.7	325.7	379.1	434.6	208.5
Cash & Equivalents	207.4	374.7	523.3	707.6	921.7	207.4
Other Current Assets	68.6	174.1	194.9	175.8	163.8	68.6
Total Current Assets	**484.4**	**864.5**	**1043.8**	**1262.5**	**1520.1**	**484.4**
Short-Term Borrowings	0.0	92.3	81.8	66.3	51.0	0.0
Trade Payables	9.5	105.4	69.8	54.2	62.1	9.5
Other Current Liab & Provisions	159.4	270.8	232.3	243.9	232.9	159.4
Total Current Liabilities	**168.8**	**468.5**	**383.9**	**364.4**	**346.0**	**168.8**
Net Current Assets	315.6	396.0	659.9	898.1	1174.1	315.6
Total Application of Funds	**781.4**	**1396.2**	**1565.1**	**1795.6**	**2074.8**	**781.4**
SOURCE OF FUNDS	12.0	12.1	14.6	14.6	14.6	12.0
Share Capital	704.4	778.3	968.5	1192.6	1455.6	704.4
Reserves	**716.4**	**790.5**	**983.1**	**1207.2**	**1470.3**	**716.4**

Cash Flow Statement

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	213	383	513	490	548	660
Non-operating & EO items	-55	-79	-107	-135	-150	-195
Interest Expenses	2	1	30	28	42	31
Depreciation	98	99	155	136	142	148
Working Capital Change	188	59	-30	26	-156	-63
Tax Paid	-74	-123	-129	-110	-137	-165
OPERATING CASH FLOW (a)	372	339	433	435	289	415
Capex	-45	-135	-73	-10	-20	-20
Free Cash Flow	327	204	360	425	269	395
Investments	-350	-242	-135	-293	-97	-118
Non-operating income	55	79	107	135	150	195
INVESTING CASH FLOW (b)	-340	-298	-101	-168	33	57
Debt Issuance / (Repaid)	-3	-16	-1	0	7	0
Interest Expenses	-2	-1	-30	-28	-42	-31
FCFE	322	187	329	397	234	365
Share Capital Issuance	-4	-4	-4	-1	1	1
Dividend	-42	-89	-224	-26	-104	-156
FINANCING CASH FLOW (c)	-51	-109	-259	-55	-138	-186
NET CASH FLOW (a+b+c)	-19	-68	73	213	184	287

KEY RATIOS

Particulars	FY18	FY19	FY20	FY21E	FY22E	FY23E
Profitability (%)						
EBITDA Margin	11.1	16.1	20.6	19.3	19.2	19.1
EBIT Margin	9.2	15.4	18.9	19.2	19.4	20.5
APAT Margin	6.0	10.4	13.4	14.1	13.5	14.7
RoE	8.0	13.6	18.2	16.1	15.3	16.4
RoCE	11.3	18.0	23.9	19.7	20.1	21.0
Solvency Ratio						
D/E	0.0	0.0	0.0	0.1	0.1	0.1
Interest Coverage	128.4	395.4	18.0	18.4	14.1	22.5
PER SHARE DATA						
EPS	26.7	50.0	73.9	73.2	79.1	95.1
CEPS	45.6	68.9	103.8	99.2	106.4	123.6
BV	345	392	421	489	548	613
Dividend	8.0	8.0	34.0	5.0	20.0	30.0
Turnover Ratios (days)						
Debtor days	13	10	9	11	12	13
Inventory days	97	90	84	102	100	98
Creditors days	29	40	43	44	40	39
Working Capital Days	82	60	50	69	72	72
VALUATION						
P/E	34.2	18.3	12.4	12.5	11.6	9.6
P/BV	2.7	2.3	2.2	1.9	1.7	1.5
EV/EBITDA	18.2	11.7	8.0	9.1	8.1	7.3
Dividend Yield	0.9	0.9	3.7	0.5	2.2	3.3
Dividend Payout	17.9	16.0	46.0	6.8	25.3	31.5

2. MASTEK LTD.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
IT Consulting & Software	Rs 1172	Buy on dips to Rs. 1118-1122 band & add further on dips to Rs 1016-1020 band	Rs 1273	Rs 1374	2 quarters

Shree Varahi Scrip Code	MASTEK
BSE Code	523704
NSE Code	MASTEK
Bloomberg	MPHL IN
CMP Feb 19, 2021	1172
Equity Capital (Rs cr)	12.5
Face Value (Rs)	5.0
Equity Share O/S (cr)	2.5
Market Cap (Rs cr)	2937.8
Book Value (Rs)	322.1
Avg. 52 Wk Volumes	212,697
52 Week High	1460.0
52 Week Low	170.1

Share holding Pattern % (Dec, 2020)	
Promoters	44.3
Institutions	19.7
Non-Institutions	36.0
Total	100.0

Our Take…

Mastek Ltd's 12 month order backlog was Rs 946.7 crore ($129.6m) as on 31 st December, 2020 as compared to Rs 940.5 crore (US$ 127.5 mn) in Q2FY21, reflecting a growth of 0.7% in rupee terms. The Company added 57 new clients in Q3FY21. Total client count as of 31 st December, 2020 was 618 (LTM) as compared to 542 (LTM) in Q2FY21. Mastek is expecting strong growth from multi-year deals led by integration of Evosys and its capability to offer end to end solution.

On Oct-2020, Mastek's material wholly-owned subsidiary -- Mastek (UK) was holding 20,18,192 stocks in Majesco (USA) had tendered its entire stake with the Acquirer of Majesco (USA) for cash, and has received the consideration aggregating to US$ 32.30 mn on October 19, 2020. This decision to sale its stake in Majesco could help Mastek (UK) to drive its growth strategy and reduce the borrowings.

On Feb-2020, Mastek acquired Evosys, the combined business significantly expanded the portfolio of services and market opportunities. Evosys operates in a high growth segment of Enterprise Cloud Applications where Oracle is one of the leading players for cloud applications in HCM (Human Capital Management), ERP (Enterprise Resource Planning), SCM (Supply Chain Management) and BI (Business Intelligence). Evosys is a recognised leader and focused on Oracle Cloud implementation & consultancy with 13 years of experience and 1000+ Oracle Cloud customers across 30+ countries. The cloud services market continues to grow faster than traditional IT segments and Mastek has seen healthy opportunity on digital transformation phase in the industry.

Mastek reported robust margins over the last three quarters and has many levers to improve margins like higher offshoring, SG&A rationalisation and optimisation of employee cost along with sales as well as administration cost. We expect, EBIT margin of ~17-18% in FY22E and FY23E. UK Government & Evosys which is likely to contribute ~70% of Mastek FY22E revenues are expected to deliver higher margins (UK Govnment-18 & Evosys-22%) while the remaining 30% of the is likely to be low margin at ~13-14%.

Valuations & Recommendations…

Mastek has witnessed a sustained improvement in its business profile and geographical presence over the past, supported by increase in scale and diversification of revenues across business segments while generating adequate returns. Mastek has a longstanding relationship with the UK government as it has been working as a subcontractor to large IT companies for execution of UK government's projects over the past. This long-term relationship, experience in Government as well as private project in various geographies and excellent execution capabilities could help to Mastek as a prime beneficiary of UK government's digital spends.

Acquisition of Evosys, has helped the company in diversifying its geographical presence, product and service mix, along with customer diversification. Market share gains on the back of inorganic expansion are expected to drive the company's long term growth. We think the Base case fair value of the stock is Rs 1273 (12.5x FY23E EPS) and the bull case fair value of the stock is Rs 1374 (13.5x FY23E EPS) over the next 2 quarters. Investors can buy the stock on dips to Rs 1118-1122 band (11.0x FY23E EPS) and add more on dips to Rs. 1016-1020 band (10.0xFY23E EPS). At the LTP of Rs 1172, stock trades at 11.5x FY23E EPS.

FINANCIALS

INCOME STATEMENT

Particulars (Rs Cr)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
Total Operating Income	442.9	243.7	81.7	409.7	8.1	1,071.5	1,698.0	1,976.7	2,266.3
EBITDA	103.9	29.1	256.9	86.6	20.0	131.3	360.0	395.3	458.3
Depreciation	11.7	5.8	101.0	11.6	0.5	24.9	45.9	48.7	47.8
Other Income	3.9	9.6	-59.1	4.1	-3.7	41.3	40.2	45.7	47.6
Interest Cost	1.8	0.8	120.0	2.1	-15.4	3.6	8.8	9.3	8.8
Tax	24.0	6.0	298.7	17.7	35.3	30.3	91.2	94.8	110.7
APAT	57.4	29.3	96.2	51.0	12.7	126.1	215.2	254.2	298.1
Diluted EPS (Rs)	19.6	10.0	96.2	17.4	12.7	43.0	73.5	86.8	101.8
RoE-%						16.7	24.3	23.2	22.3
P/E (x)						27.2	16.0	13.5	11.5
EV/EBITDA						22.1	7.5	6.2	4.7

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	**1033.2**	**1071.5**	**1698.0**	**1976.7**	**2266.3**
Growth (%)	26.4	3.7	58.5	16.4	14.7
Operating Expenses	902.1	940.2	1338.1	1581.4	1808.1
EBITDA	**131.1**	**131.3**	**360.0**	**395.3**	**458.3**
Growth (%)	**31.6**	**0.1**	**174.2**	**9.8**	**15.9**
EBITDA Margin (%)	**12.7**	**12.3**	**21.2**	**20.0**	**20.2**
Depreciation	17.4	24.9	45.9	48.7	47.8
EBIT	**113.8**	**106.4**	**314.1**	**346.6**	**410.5**
Other Income	25.3	41.3	40.2	45.7	47.6
Interest expenses	6.1	3.6	8.8	9.3	8.8
PBT	**133.0**	**144.1**	**345.5**	**383.0**	**449.2**
Tax	31.9	30.3	91.2	94.8	110.7
Adj PAT	**101.0**	**113.8**	**254.3**	**288.2**	**338.5**
Growth (%)	**100.6**	**126.1**	**215.2**	**254.2**	**298.1**
EPS	43.8	25.3	70.7	18.1	17.3

BALANCE SHEET

As at March	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	12.0	12.1	14.6	14.6	14.6
Reserves	704.4	778.3	968.5	1192.6	1455.6
Shareholders' Funds	**716.4**	**790.5**	**983.1**	**1207.2**	**1470.3**
Long Term Debt	69.2	240.9	215.6	150.6	110.5
Net Deferred Taxes	-15.9	-23.0	-28.0	-20.7	-25.4
Long Term Provisions & Others	11.7	250.8	218.3	248.3	269.0
Minority Interest	**0.0**	**137.1**	**176.1**	**210.1**	**250.5**
Total Source of Funds	**781.4**	**1396.2**	**1565.1**	**1795.6**	**2074.8**
APPLICATION OF FUNDS					
Net Block & Goodwill	168.8	858.4	847.1	838.4	840.4
Other Non-Current Assets	297.0	141.7	58.1	59.2	60.3
Total Non Current Assets	**465.8**	**1000.1**	**905.2**	**897.6**	**900.7**
Trade Receivables	208.5	315.7	325.7	379.1	434.6
Cash & Equivalents	207.4	374.7	523.3	707.6	921.7
Other Current Assets	68.6	174.1	194.9	175.8	163.8
Total Current Assets	**484.4**	**864.5**	**1043.8**	**1262.5**	**1520.1**
Short-Term Borrowings	0.0	92.3	81.8	66.3	51.0
Trade Payables	9.5	105.4	69.8	54.2	62.1
Other Current Liab & Provisions	159.4	270.8	232.3	243.9	232.9
Total Current Liabilities	**168.8**	**468.5**	**383.9**	**364.4**	**346.0**
Net Current Assets	315.6	396.0	659.9	898.1	1174.1
Total Application of Funds	**781.4**	**1396.2**	**1565.1**	**1795.6**	**2074.8**

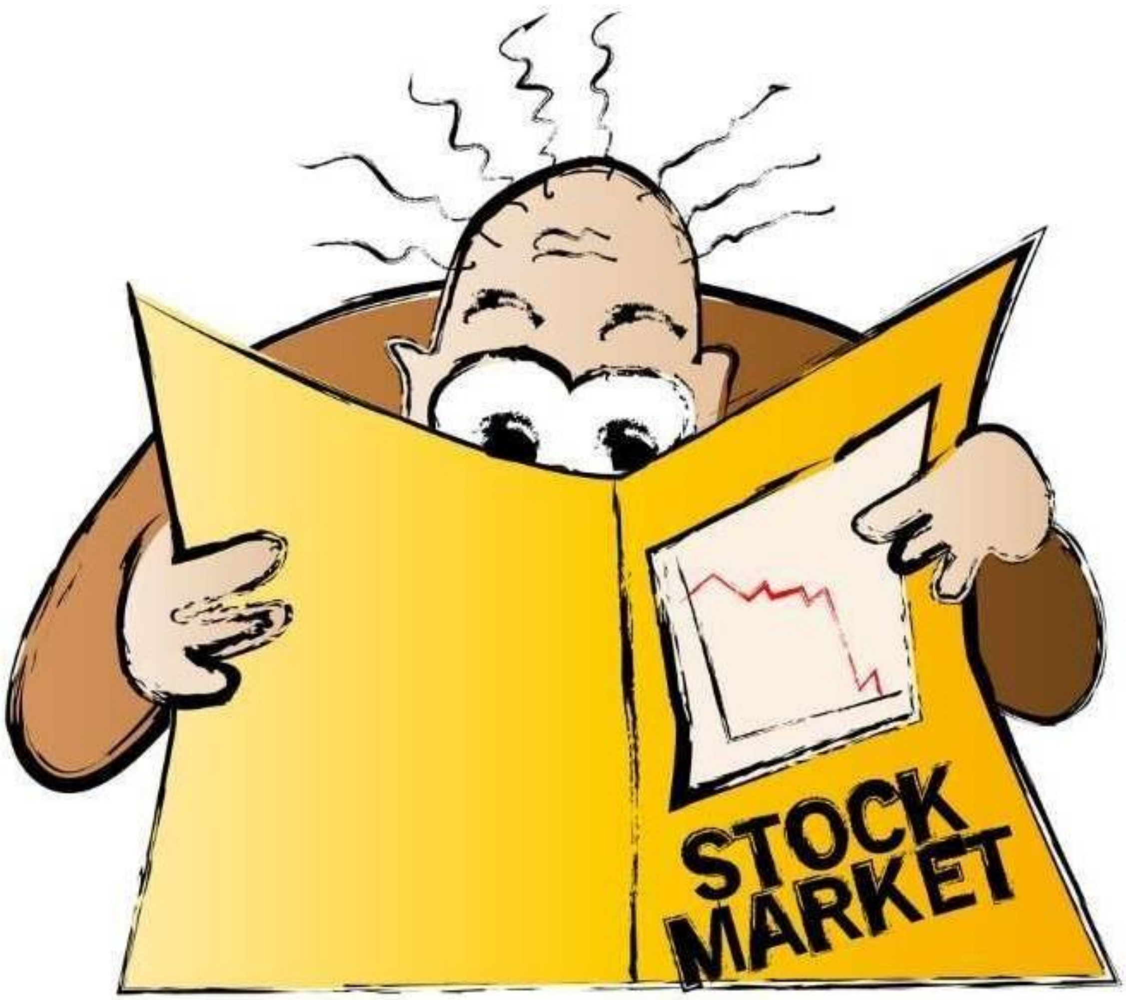
CASH FLOW STATEMENT

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	101.5	113.8	345.5	383.0	449.2
Non-operating & EO items	31.4	54.0	51.9	60.5	75.7
Interest Expenses	6.1	2.4	8.8	9.3	8.8
Depreciation	17.4	24.9	45.9	48.7	47.8
Working Capital Change	-50.7	36.5	-127.2	-16.6	-26.2
Tax Paid	-30.6	-47.1	-91.2	-94.8	-110.7
OPERATING CASH FLOW (A)	**75.1**	**184.5**	**233.7**	**390.1**	**444.6**
Capex	-14.8	-15.5	-33.5	-38.3	-48.2
Free Cash Flow	60.2	169.0	200.2	351.8	396.4
Investments	-23.8	-241.9	85.3	0.0	0.0
Non-operating income	-14.7	-11.3	-59.8	-54.3	-52.4
INVESTING CASH FLOW (B)	**-53.3**	**-268.7**	**-8.0**	**-92.6**	**-100.6**
Debt Issuance / (Repaid)	0.2	242.7	-35.8	-80.5	-55.5
Interest Expenses	-1.9	-1.8	-8.8	-9.3	-8.8
FCFE	58.5	409.9	155.6	262.1	332.0
Share Capital Issuance	2.9	2.1	2.5	0.0	0.0
Dividend	-17.7	-31.5	-25.1	-30.1	-35.1
FINANCING CASH FLOW (C)	**-16.6**	**211.6**	**-67.1**	**-119.9**	**-99.4**
NET CASH FLOW (A+B+C)	**5.2**	**127.4**	**158.6**	**177.6**	**244.6**

KEY RATIOS

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin (%)	12.7	12.3	21.2	20.0	
EBIT Margin (%)	11.0	9.9	18.5	17.5	18.1
APAT Margin (%)	9.7	11.8	12.7	12.9	13.2
RoE (%)	15.9	16.7	24.3	23.2	22.3
RoCE (%)	11.0	10.4	13.2	14.1	14.7
Solvency Ratio (x)					
Net Debt/EBITDA	0.5	2.5	0.8	0.5	0.4
Net D/E	0.1	0.4	0.3	0.2	0.1
PER SHARE DATA (Rs)					
EPS	34.4	43.0	73.5	86.8	101.8
CEPS	40.3	51.5	89.1	103.4	118.1
Dividend	244.6	269.8	335.6	412.1	501.9
BV	8.5	8.0	10.0	12.0	14.0
Turnover Ratios (days)					
Debtor days	73.7	107.6	70.0	70.0	70.0
Inventory days	0.0	0.0	0.0	0.0	0.0
Creditors days	3.3	35.9	15.0	10.0	10.0
VALUATION (x)					
P/E	34.1	27.2	16.0	13.5	11.5
P/BV	4.8	4.3	3.5	2.8	2.3
EV/EBITDA	21.3	22.1	7.5	6.2	4.7
EV / Revenues	2.7	2.7	1.6	1.2	1.0
Dividend Yield (%)	0.7	0.7	0.8	1.0	1.1

THIS MIGHT IMPACT INVESTMENTS



Empowering Half of the Workforce

The World Economic Forum (WEF) reports that women's global average annual income stands at only $11,000 in purchasing power parity (PPP), compared to nearly twice that — $21,000 — for men. Projecting current trends into the future, the overall global gender wage gap won't close for 100 years. The gender gap is even more profound when it comes to economic participation and opportunity. If we continue along the same trajectory, it will take 257 years to close this gap worldwide.

Things are just as bad at the highest levels of corporate leadership worldwide, where women account for just 24% of senior roles. Even fewer are CEOs of the world's largest corporations. Only 1 in 20 Fortune 500 companies was led by a woman in 2018.

Although women are gaining representation among executive committees in Fortune 100 companies, at the board level, they remain a small minority. In 2017, women accounted for 22% of executive committee roles in the Americas, 15% in Europe, and just 4% in Asia.

The situation is particularly alarming in India. WEF's 2020 Global Gender Gap Index figures indicate that just 25% of women formally engage in India's labour market, compared with 82% of men. This is one of the lowest workforce participation rates in the world for women, ranking India 145th out of 153 countries. This figure is even more worrisome given the fact that the women's labour force participation rate in India has fallen from 35% in 1990 to 25% now, despite significant educational gains and robust GDP growth. India is the only major economy to witness such a negative trend in women's participation in the workforce.

Among India's senior officials and managers, women account for only 14% of leadership roles — putting India at 136th in WEF's Global Gender Gap Index — and just 30% of professional and technical workers. GoI has reported that only 10% of startup founders are women, and women fill just 22% of positions in the field of artificial intelligence (AI), despite India having the second-largest AI workforce in the world.

An Indian woman is making about 20% of what an Indian man is making. That compares to an average American woman, who makes about 65% of an American man; an average Chinese woman making 60% of an average Chinese man; and an average Bangladeshi woman making 40% of an average Bangladeshi man. Also, according to OECD data, the average Indian woman performs six hours a day of housework. The average Indian man? One hour.

Oxfam's Time to Care 2020 report states that women and girls in India contribute 3.26 billion hours of unpaid care work every day, representing the equivalent of at least $271 billion in unpaid income in India a year. This burden of unpaid work negatively impacts women's economic gains and traps them at the bottom of the economy.

According to IMF, reaching gender parity would boost India's GDP by as much as 27%. The World Bank reports that India's GDP growth rate would climb above 9% if women had an equitable share of jobs, and that India could boost its growth by 1.5 percentage points per year if just 50% of women could join the workforce. When more women participate in the labour force, men also benefit. A 2019 IMF study found that as women's complementary skills raise productivity, wages are boosted for everyone.

Feedback suggests three key areas that will have an impact at both the micro and macro level

One, top management professionals — both men and women — must set a tone that signifies their support for women leaders. For example, when top management models the behaviour that signifies support for women leaders and indicates zero tolerance for sexual harassment, there will be no more questioning the authority of women managers; no more double standard in justifying decisions made by women in leadership roles.

Tw, proactively addressing the long legacy of policies, practices and norms that thwart women's equality. Addressing this sordid history requires much more than a commitment to making gender-blind decisions today. We must, instead, work actively to reverse inequality.

Third, view the place we have earned in our professions as a position from which to pay it forward to those working their way up. Reaching out to mentor, to sponsor, to coach, and to share the path forward, we elevate those coming along after us, particularly encouraging women who are rising up through the ranks.

There's a critical difference between mentorship and sponsorship. As a female colleague once told me, women do not lack mentors, they lack sponsors, that is, advocates. In other words, men are always happy to offer advice, which if anything can inadvertently serve to reinforce the imbalanced power dynamic between men and women. But actively promoting the career of a colleague is a different matter

Finally, all men should get more involved in household tasks, a practice we should carry forward beyond Covid restrictions.

India isn't China, so don't copy its industrial policy

India aims to copy China in what economists call "industrial policy". The budget allocated Rs 2 trillion over five years to 13 industrial sectors through a production linked incentive (PLI) of 4-6% of production. This approach began earlier with tariff protection and allied incentives for cellphones. This was extended to medical devices and bulk drugs. Next came another 10 sectors, including autos and components, textiles, food processing, battery storage, solar photovoltaics, telecom and networking products, and white goods.

The government hopes to create global manufacturing hubs in the 13 sectors, attracting multinationals and major Indian companies. This approach of "picking winners" worked in some miracle economies in Asia, notably China. However, India is not China.

Economic liberalisation after 1991 steadily cut import duties and other controls. This eventually created an export boom in the 2000s. But world exports stagnated after 2013 and so did India's. Many countries sought solace in free trade areas (FTAs). So did India. But India's exports to FTA partners stagnated whereas imports from them boomed. One reason was the routing of Chinese goods, legally or otherwise, through FTA partners.

Disillusioned with that approach, the government has opted for industrial policy

The Nehru-Indira era aimed at self-reliance, creating national champions — mostly in the public sector — through strict industrial and import controls. This was a disastrous failure. Modi says Atmanirbhar is different because it aims not for self-sufficiency but global manufacturing hubs.

As in China, the government will pick sectors with the best potential for job and exports, support them for five years to achieve scale economies, and then drop the incentives once global competitiveness is established. In every listed sector, a minimum investment will be required over five years to qualify for a PLI of 4-6%.

Why should the government pick winners instead of letting market competition decide that? In the 1990s, nobody thought that software, autos, and pharma would become India's three top export sectors. Picking winners would have been an inferior strategy. Even in Asian neighbours, some attempts at picking winners were disasters (like Malaysia's promotion of the Proton car). Industrial policy can hugely misallocate resources and spur crony capitalism.

Will incentives and tariff protection really end after five years? Experience suggests that industries used to such support want them forever, pleading that any reduction will mean bankruptcies and unemployment. Many more sectors are demanding inclusion in the PLI list, which already looks too long.

India has massive solar energy plans. That is the justification for including photovoltaic panels and batteries in the PLI list. China is today the biggest producer of these, not just through scale economies but constant improvements through R&D. An R&D culture is vital for success but cannot be induced by cash incentives.

India has a multitude of small farms, and does not allow corporate farming. So global scale food processing will require contract farming to assure quality supplies of produce. Alas, Modi's new law on contract farming has been bitterly opposed by agitating farmers. This will scare off foreign investors. India has long been a textile exporter, based largely on its large cotton production, but no industrialist wants to set up giant factories with 20,000 workers as in Bangladesh or Cambodia because labour laws are too onerous. The recent labour reforms are too weak.

China is an autocracy that can crush agitators. Modi is often accused of autocratic tendencies but backed away from reforms of land acquisition (and some farm laws) for the fear of losing votes if seen as too anti-farmer or pro-industrialist. India has relatively high land prices (because of generous acquisition laws), labour (because of the difficulty of sacking excess or seasonal labour), electricity (because high industrial tariffs are used to subsidise free farm electricity) and freight rates (which are kept high to subsidise passenger traffic). In every case the problem lies in political competition between parties to suck up to sundry vote banks. Such democratic considerations did not hobble the east Asian tigers in their fast-growth phase.

Finally, many potential investors in the PLI list are Chinese. India's border spat has resulted in Indian economic sanctions against Chinese companies. Hundreds of Chinese apps have been banned from smartphones, imports have been delayed supposedly for security inspection. Clearly, further border clashes will be met with further sanctions. This will discourage investment from China, which has the ideal knowhow and capital for several PLI sectors. In cellphones, the government has attracted 16 MNCs, including Samsung, Apple, and Foxconn. Cellphone production and exports have boomed, but so have component imports. Value addition is very modest. The government claims victory but the jury is still out.

Public sector banks merger: A half yearly review

After 10 months of banks merger by the current government, the half yearly financial results of the banks highlights their superior performance than the pre merger period in the subsequent analysis.

The merger of public sector banks (PSBs) involves integration of six weaker PSBs with four better performing ‘anchor’ banks. Andhra Bank and Corporation Bank were merged with Union Bank while Oriental Bank of Commerce and United Bank were merged with Punjab National Bank. Syndicate Bank has been merged with Canara Bank, while Allahabad Bank with Indian Bank. The mergers took effect from 1.4.2020. Dena bank and Vijaya bank were merged with Bank of Baroda in 2019.

Punjab National Bank (PNB) has become the country's second-largest bank, with business size of Rs 17.94 lakh crore, after SBI which has the business of over Rs 52 lakh crore.

Canara Bank has become the fourth-largest public sector bank of the country. After the merger, the combined business is Rs 15.20 lakh crore and a lower gross NPA ratio of 8.77%.

Union Bank of India post-merger has become 5th largest PSB. The combined business base of the merged bank is Rs 14.59 lakh crore. Union Bank has a high Net NPA ratio of 6.85%.

Indian Bank has assets of Rs 8.07 lakh crore post-merger becoming 7th largest PSB. Indian Bank had a net NPA ratio of 3.75%.

Analysis

The merged PSBs total assets account for about 90% of all the PSBs. So the following analysis of data of all PSBs can be considered equivalently for the merged PSBs in the same reasoning.

The following data has been summarized from RBI's Financial Stability Report released in January 2021.

Credit growth (y-o-y) of all banks, which had declined to 5.7% by March 2020, plummeted further to 5.0% by September 2020. For PSBs, credit growth zoomed from 3.0% in March 2020 to 4.6% in September 2020.

The other business component or deposit growth of all banks was buoyant at 10.3% (y-o-y), driven by precautionary savings. PSBs recorded a growth of 9.6%, among the highest in the last five years.

On the earnings front, PSBs net interest income (NII) grew at a much higher rate of 16.2% in September 2020 (13.0% in March 2020). Net

interest margin (NIM) jumped up in September 2020. However, growth in other operating income (OOI) plummeted to 1.2% from 29.2% in March 2020.

Earnings before provisions and taxes (EBPT) of PSBs grew by 17.6%. Return on assets (RoA) and return on equity (RoE) improved substantially with the recovery in RoE of PSBs being particularly noteworthy after languishing at sub-zero and near zero levels for the past four years. Falling interest rates led to cost of funds declining.

Asset Quality and Capital Adequacy

The all banks' gross non-performing assets (GNPA) and net NPA (NNPA) ratios continued to decline and stood at 7.5% and 2.1%, respectively, in September 2020. The slippage ratio, defined as new accretion to NPAs in the quarter as a ratio to the standard advances at the beginning of the quarter, contracted sharply for consecutive half-years to 0.15% in September 2020. All banks' NPA provisions recorded marginal decline of 0.2% (y-o-y), with PSBs decreasing their provisioning. The provision coverage ratio (PCR) of all banks taken together improved across all bank groups and rose from 66.2% in March 2020 to 72.4% in September 2020.

The capital to risk-weighted assets ratio (CRAR) of all banks improved considerably by 110 bps to 15.8% in September 2020 over March 2020 (14.7%). The PSBs recorded an increase of 60 bps.

Among the broad sectors, asset quality improved noticeably in the case of industry, agriculture and services in September 2020 over March 2020, with a decline in GNPA and stressed advances ratios. In the case of retail advances, however, the GNPA ratio declined only marginally and stressed advances remained flat. A broad-based decline in GNPA ratio was visible across all major sub-sectors within industry.

The PSBs' GNPA ratio of 9.7% in September 2020 may increase to 16.2% by September 2021 under the baseline scenario. In the severe stress scenario, the GNPA ratios of PSBs may rise to 17.6% by September 2021.

Though this is a single important negative financial parameter for the development of the PSBs, this would be a short term crisis as the PSBs would be provisioning for the NPAs, reallocating their resources and realigning their strategies for superior results.

Merits Of Merger

A large capital base would help the acquirer banks to offer a large loan amount

Service delivery can get improved

Recapitalization need from the government to reduce

Customers will have a wide array of products like mutual funds and insurance to choose from, in additional to the traditional loans and deposits

Technological up gradation can be considered

Demerits of Merger

Bank officials and unions of PSBs were against the merger and the government should not have went forward with the step

It would be tough to manage issues pertaining to human resource

Few large inter-linked banks can expose the broader economy to enhanced financial risks

The local identity of small banks won't be that big.

Customers are expected to get harrassed initially. This in reality has materialized and the banks are working on this.

Conclusion

The year 2020 has been destructive and harmful to businesses. If in such a dismal year the banks could put up such a bright show, in a booming economy which is likely to come up in the next 1-2 years the PSBs are expected to ramp up even further.

So this banks merger ordeal has led to improvements in the financial results even in an aberration year such as this and registered top up growth over the past 2 years since when the PSBs had started recovering from a 2-3 years of losses. And with green shoots in the global economies, greater rewards are to be seen in the future.

It is also to be noted that the government has decided to keep 4 PSU players in each sector according to its economic strategy and would also privatize 2 of the unmerged PSBs in this financial year.

Thus the PSBs, which 6 years ago had a lion's share of 71% of total bank business in India (today 61%), would contribute to the $ 5 trillion Indian growth story dream and also they themselves would grow together with the nation.

Leading India's post-pandemic resurgence: How the latest Union Budget will bolster the country's ongoing fintech revolution

2020 was a year that we will remember forever – and not for the best of reasons. The Covid-19 outbreak brought the world to its knees. The machinery that kept businesses and the economy going ground to an excruciating halt, seemingly overnight. With people confined to their homes to avoid accidental exposure and community transmission, extended lockdowns became the flavour of the season.

But, in every cloud, exists a silver lining. The black swan event added inadvertent momentum to India's journey toward becoming a digital-first economy. With more consumers across the country – even from the relatively untapped rural and semi-urban markets – taking to the digital medium to combat lockdown restrictions, the volume of digital transactions jumped to an all-time high. Over 2.3 billion UPI-based payments were processed in January alone, while the total quantum of non-cash transactions is expected to cross INR 4,630 crore by the end of FY2020-21.

These statistics all point to one conclusion: that India's digital payments ecosystem is set to register exponential growth over the next few years, whether in terms of the market size, end-consumer adoption, or transaction volumes. And proposals made in the recent Union Budget presented by the Finance Minister Nirmala Sitharaman will only accelerate the growth trajectory of the Indian fintech industry.

Decoding the budget: What the fintech industry gained in the first post-pandemic fiscal plan

Walking the tightrope between rejuvenating the economy and avoiding fiscal overcommitment, the Union Budget 2021-22 underscored the government's focus on stimulating economic growth after a turbulent 2020. The proposed establishment of development finance institutions (DFIs), for instance, is a positive step that will streamline and simplify business lending, especially in mission-critical sectors such as manufacturing and infrastructure that are perennially starved for capital.

Similarly, public sector banks (PSBs) will now be allowed to directly raise capital from the market to ease the fiscal pressure that comes with providing frequent government-backed financial aid to these institutions. On the other hand, the formation of dedicated asset reconstruction and asset management companies will help BFSI players to deal with bad loans. These measures are expected to ease the liquidity crisis currently afflicting the economy by freeing up much-needed capital for lending in the future.

However, these measures pale in comparison with perhaps the biggest proposal for the BFSI sector in the Union Budget 2021-22: the creation of a corpus worth INR 1,500 crore to accelerate the adoption of digital payments. The fund will incentivise fintech companies and traditional BFSI players to launch new-age digital solutions that are aligned with the varied needs of India's diverse consumer base and can address existing barriers to financial inclusion through cutting-edge technology.

The announcement follows close on the heels of promising policy and regulatory developments in recent months. Earlier this year, the RBI outlined a Payments Infrastructure Development Fund (PIDF) worth INR 345 crore for the development of digital and offline point-of-sale (PoS) infrastructure in regional markets across tier-3/tier-4, semiurban, and rural geographies. Through the fund, it aims to establish non-cash transactions as the preferred mode of payment in areas that have hitherto been heavily dependent on cash by improving the coverage of, and access to, digital financial services.

Other measures in the pipeline are also expected to accelerate India's ongoing transformation. The National Payments Corporation of India (NPCI), for instance, has announced its plans to introduced NFC-based UPI payments to enable seamless offline transactions in areas with limited to no internet connectivity. The RBI, on the other hand, has issued a directive to payment system operations to shift to interoperable QR codes, backed by UPI or BharatQR, to further improve the reach, scale, and penetration of digital transactions. The first cohort of fintech start-ups selected under the RBI's regulatory sandbox is also working toward enabling state-of-the-art solutions, such as contactless, soundwave-based payments. All of these solutions are being designed to overcome the issues of low digital literacy, limited internet connectivity, and poor smartphone adoption prevalent outside tier-1 and tier-2 regions.

The latest Union Budget builds on this robust, future-oriented foundation by incentivising fintech innovation. The end-goal? To make digital transactions more accessible, available, and convenient for the mass consumer by eliminating traditional hurdles involving geographical location, purchasing power, or infrastructure. The scope and intent behind it are applause worthy. All that remains to be seen now is how well the ecosystem stakeholders – from conventional BFSI companies and fintech start-ups to government agencies, regulatory bodies, and businesses – can translate this ambitious vision into a tangible reality. The early indicators are promising and make us believe that the promise of India's imminent evolution into a less-cash economy is no longer a matter of 'if', but merely that of 'when'.

Time for bonds that beat inflation

Where is a pensioner to invest? The returns on term deposits and small savings schemes have plummeted. It is time for the government to come out with inflation-indexed bonds (IIBs), protecting both the principal amount and the interest from the corrosive effect of inflation, to help our senior citizens.

Most bank fixed deposits offer about 6% or so for seniors. Of course, the Floating Rate Savings Bonds offer higher returns (7.15%) than on fixed deposits, with the interest being reset every six months at 35 basis points over the National Savings Certificate. High retail inflation leads to negative real returns for investors, hurting the elderly who depend on income from their investments. So, controlling inflation is vital.

The appetite for risk (among the elderly) to invest in equity is low, and some savings must be deployed in bonds. The government must launch IIBs that preserve the value of the principal and offer a rate of interest that is positive in real terms, that is, even after netting out the rate of inflation. This would constitute a decent saving option for retirees in today's world of volatile asset prices and low yields on debt.

IIBs, known as Capital Indexed Bonds, issued in 1997, offered inflation protection only on the principal and not the interest. It found few takers. Later, when IIBs were issued in 2014, these bonds were made attractive to investors. Investors were offered an interest of 1.5% every year, over and above the rate of inflation as measured by the consumer price index. If launched again, IIBs must have a robust design and also be marketed aggressively. The interest could be made tax-free up to an amount and the penalty for early withdrawal, especially by senior citizens, must not be steep.

Time to expand the role of cat bonds

The budget announcement raising the foreign direct investment (FDI) limit in the insurance sector from 49% to 74% is most welcome. With greater capitalisation, together with ongoing reform of the corporate bond market, we can efficiently boost not just provision of long-term funds for infrastructure but also the market for high-yield debt instruments such as catastrophe bonds, to better manage disaster risks.

The recent landslide and glacier burst in Uttarakhand's Chamoli district, and other extreme events nationally, point to the express need to leverage financial markets for improved risk mitigation. Catastrophe bonds, or cat bonds, provide a sound mechanism to transfer hazard risks to wide section of investors. The bonds offer a sufficiently attractive coupon to cover for the heightened risk, and have a short maturity period of 3-5 years.

In the event of a disaster, the principal is written off or suitably renegotiated. For the issuer of cat bonds, insurers, reinsurers and, increasingly, sovereign entities, it can mean large financial protection. It should be possible for all regions prone to natural hazards to insure themselves. They could either buy insurance from a sufficiently large and versatile insurance company, which would issue cat bonds, or the relevant local or state governments could directly issue cat bonds.

Of course, how high the coupon on cat bonds has to be to attract investors would be a function of the probability of extreme events, and which, in turn, call for heightened awareness and attendant best practices when it comes to infrastructure and built spaces. The bottom line is the speedy need for innovation to proactively manage a whole gamut of risks using new financial instruments and products.

The National Disaster Response Fund could, perhaps, buy policies against specific kinds of disaster, for specific areas. Note that assets under management by pension funds and insurance companies here are now over `55 lakh crore, and what's required is systematic allocation of resources to better insure extreme events well.

Resilience to agility: The journey for businesses in 2021

The first half of 2020 saw businesses reel in shock from the collapse of the way of life as we knew it. However, in the second half of the year businesses started adapting to the new normal towards recovery. The Reserve Bank of India revised its forecast of economic growth for the current fiscal year (2020-21) to (-)7.5% in December 2020 compared to its earlier forecast of (-)9.5%. The second half of the fiscal year is expected to show positive growth.

This proves the dynamism as well as the volatility of the business landscape. There is an opportunity for businesses to change their narrative from struggle to recovery and growth through a positive outlook, agility and persistence. Consumer behavior has changed immensely in the last one year, shifting online at an unprecedented rate. Retailers with physical-only presence are witnessing greater challenges, with reduced footfalls, disrupted supply chains, and a distant recovery. According to a recent NRF survey, 9 in 10 consumers have changed their traditional shopping habits. And more than 50% of consumers have ordered products online that they would normally purchase at the store.

Considering the consistent change, business leaders across the industry need to be more agile to capitalise on emerging opportunities, which will help them chart a recovery and growth path in 2021.

Agility to bring new and relevant offerings

Disruption always gives rise to new formats and offerings in the market, as also seen post the internet boom at the turn of the millennia. Pivoting to altered serviced basis the present need of the customer has also allowed businesses to be relevant in the industry and this will continue to be a way forward for business leaders. According to a recent study by NASSCOM, three-fourths of business-to-business start-ups are developing new products and trying new verticals.

Digital adoption will not be optional anymore

Businesses that have taken the first mover's advantage by tapping into the digital demand and altering their flow of service to suit the customer, are doing better than their peers. According to a report by Forbes, people are already spending more time online than ever before, and internet usage has surged by 50-70%. India will witness further cycles of rapid technology adoption and onboarding of businesses on e-commerce platforms, with a focus on the direct-to-consumer approach to selling online. The adoption of digitalization will be the key to transforming small businesses to be more competitive and resilient in the future.

Leveraging the tech juggernaut for personalised experiences

The onset of 'contactless function' has opened the doors for the adoption and mainstreaming of new technologies. This has allowed the businesses to stay afloat and will fuel the growth for multiple industries, provided they embrace technology. Emerging technologies like Artificial Intelligence, Augmented Reality, Virtual Reality will help businesses comprehend the new trends and elevate consumer engagement, by leveraging data. This will not only help them to attract and inspire but also retain customers in the long run.

Sustainability is the only way forward

Apart from the obvious, 2020 also demonstrated to us how much harm were we causing to our environment. Global lockdowns helped in the replenishment of nature, leaving us with many beautiful, nostalgic sights and one stark realisation. Businesses took the cue and actively focused on overhauling their processes, functions and strategies. Global giants shunned business verticals that they saw were not in line with a sustainable vision. Sustainability in 2021 will be one of the important pillars of long-term as well as short term policies for organisations. This will not only align the businesses with the future, but also help them position themselves as entities that care, strengthening their brand preference for years to come.

In the words of Peter Drucker, the Austrian management consultant, educator, and author, whose writings contributed to the philosophical and practical foundations of the modern business corporation, "The greatest danger in times of turbulence is not the turbulence – it is to act with yesterday's logic." In the VUCA world, as long as businesses are willing to change and adapt, they will stay relevant for their consumers. Agility is not just the need for this year, but a foundation for the future from hereon.

Currency market review 2021

USD

US Dollar or USD has depreciated by 10% in last one year.

In present times US retail sales data has beaten high estimates. The initial reaction has seen the USD extend gains across the board to hit fresh session highs with US yields also rising.

Going forward, this will undoubtfully raise questions as to whether $ 1.9 trillion of fiscal stimulus is needed.

The 1.3 levels is the 10 year support and this was the same level that had come into play in early-September to turn around the USD sell-off that had started in March 2020. The resistance of USD is at 1.1 levels.

Euro

Despite all of the bazooka in the news over the past few months, EUR/USD has built into a fairly consistent range between 1.1600 and 1.1900. The Euro has appreciated by a 10% in the past year.

The pair ran into a big level of resistance from 1.3250-1.3275. That resistance check led to a quick pullback, but so bulls have persisted to keep the short-term trend running higher. The support is at 1.1 levels. The strategy is long Euro and short USD in the next 1 year.

GBP

The British pound appreciated by 10% in a year to 2 year high of $ 1.40 level for the first time since April 2018, amid hopes that the UK could ease lockdowns sooner than expected due to the fast deployment of Covid-19 vaccines. There are already signs that the economy is improving: PMI survey showed Britain's private sector output stabilized in February 2021 while inflation rose a little more than expected in January. Still, retail sales slumped 8.2% month-over-month in January 2021, the most since a record 18% fall in April and government borrowing was the highest for January since records began in 1993. The pound has also been supported this year by lessening expectations of negative interest rates and a post-Brexit trade deal with the EU.

The GBP has been bearish for a while now because of a strengthening USD as the markets focus on rising US Treasury yields.

For now, the principal driver seems to be rising yields on US Treasury bonds and notes as the rollout of coronavirus vaccines leads to hopes that the US economy is on the way to recovery, potentially leading to rising US inflation.

The GBP gets support at 1.2 levels and resistance at 1.6 levels. The strategy is long GBP and short USD in the next 1 year.

Rupee

The Rupee had remained flat in past 1 year with 0% returns.

In July 2020 , the sovereign currency ratings on rupee had been cut to a lower grade after several years. The recession and Covid crisis are giving jitters to the amarkets each day.

Growth fundamentals of India were weakening since 2017 after recording medium rates in the H1 of the last decade. Also though markets were bullish on India, during 2010 -2016 growth figures eluded the record rates of the previous decade.

Interest rates differential between India and US declined in H1 2010 decade which caused Rupee to depreciate. In 2012 interest rates in US were declining from 3.5% in 2010 which continued till 2014 and post 2015 the rates started rising again. Indian benchmark 10 year gsec yield was 9% in 2012, declined to 7.5% in 2014 and climbed to 9% again in 2015. In 2016 the yield dropped to 6.2% and spiked to 8.5% in 2018 and then plummeted to 6.2% in 2020. The Fed started raising rates since 2018 when globally growth parameters had began improving since 2016.

In 2012, risk aversion was seen in Europe, Dow Jones was rallying while CAC was stagnant. So Dollar appreciation was seen and Euro, Pound, Yen and Rupee depreciated.

Since 2014 risk appetite started improving. Green shoots in global economies were seen. The monetary easing and fiscal stimulus had yielded results. The Dollar which appreciated as a result of all this between 2009 and 2015 led to a steep rupee depreciation during this era to the tune of about 75% from 40 to 70 levels.

During 2016-2020 rupee had depreciated from 70 to 75 levels on lower growth fundamentals and worsening of global economies again since 2019. The flight to Dollar as safe haven was seen in 2019 and caused the Dollar index to rise.o6

Another factor causing downward movements in rupee was the forward premia rates of Dollar rupee. The forward premia rose from 2.6 levels in 2007 to 3.9 levels in 2012 before declining to 2.9 levels in the later half of the past decade. The rupee too followed similar trend.

In the next 2 years rupee is going to depreciate to 80 -82 levels on Dollar appreciation, benign macro data and recession, Covid crisis, higher forward premia rates and declining interest rates. Also if inflation rises on supply demand imbalances, the $ 3 trillion economy will see further depreciation of the domestic currency, thanks to Purchasing Power Parity theory.

Emerging trends in affiliate marketing

Affiliate marketing is a technique of digital marketing and enables the companies to earn the income online, drive sales and increase the brand awareness. This is the process by which the affiliate earns commission for promoting other's products. Marketers offer the bonuses also for promoting the affiliate programs.

Reviews play the emerging trend of affiliate marketing. The affiliate marketers can work on contents and reviews to enforce the purchase. The keywords enabled reviews help in products visibility and conversions. SEOs now plan for verbal keywords also apart from the typed keywords.

Banner advertising, social media advertising and native advertising also lead to affiliate marketer content and conversions. The products need to be advertised in targeted audience which leads to conversion. The traditional advertising is obsolete now and companies look for newer ways of advertising their products

The data is the basic driver for marketing decisions. The marketers use data for content improvement and promotional strategies. The data provide the insights about the audience and marketing mix decision become effective. Data analytics help the marketers to identify the advertising channels.

Influencers also act as facilitator for improving the promotions of affiliate landing pages and lead to conversions. Micro influencers help in reaching the highly targeted audience. The companies grow their affiliates businesses by employing the influencer's fans base. The affiliates business use influencers for their product recommendations. The affiliate marketing may achieve the success by use of the emerging trends.

Farm subsidies account for 21% farm income per hectare with continuing patronage of governments

Successive Governments have been trust worthy for farmers. The prima facie evidence of this trust is the response of farmers to green revolution in crops, white revolution in milk, yellow revolution in oilseeds, silver revolution in eggs carrying India to top rank in milk and second rank in all others in agriculture. It is the responsibility of farm leaders, opinion makers, policy makers to allay fears, apprehensions regarding the aims, objectives and vision of the new farm laws. The main objective is to reduce exploitation of farmers by middleman and traders in APMCs, as farmers are even to this day issued informal 'white slips' with no transparent price fixation mechanism, with illegal deductions, under cover sales and usurious interest for cash loans rendering farmers in the web of interlocked produce and credit market.

Still a few farm leaders, economists are airing apprehensions of removal of MSP and entry of corporates, indicative of further exploitation of farmers. The continued trust in Government is established with the ever-increasing support to farmers. The subsidies from the Government of India are Rs. 70,000 crores towards fertilizers, Rs. 20,000 crores towards farm credit, Rs. 6500 crores towards crop insurance, Rs. 24,000 crores towards MSP totalling Rs. 120,500 crores. And a similar support from State Governments of Rs. 90,000 crores towards electricity power subsidies, Rs. 17,500 crores towards irrigation subsidies, Rs, 6500 crores towards crop insurance subsidies totalling Rs. 1,14,000 crores. Public investment in agriculture through major irrigation projects by States, is almost equal to the annual farm subsidies of the Government of India. In addition, 50% of the food subsidies are granted to farmers under National Food Security Mission, as 75% of rural population covered. State Governments also waived farm loans of Rs. 1,22,000 crores. Thus, farm subsidies form about two percent of India's GDP. The total input subsidy per ha forms 18.17% of the farm income per ha, the price support subsidy per ha forms 2.46% of the farm income per ha and the total subsidy to farmers form about 21% of their farm income. And this will continue.

The prima facie evidence of continued support to farmers since Independence, through MSP, input and power subsidies can be seen for instance in the cultivation of paddy crop by over pumping groundwater leading to over exploitation of Punjab aquifers, creating irrigation for 100% of net area sown, an unique facility. About 70% of the irrigation in India is met by groundwater resource, housing the largest number of irrigation wells (around 30 million), pumping twice that of the USA and six times that of EU is another prima facie indicator of the continuous support of Governments to farming.

The apprehension of Corporates entering agriculture has no basis. In the US, more than 95% of the farms are still family farms, and corporate farming is yet to significantly enter the world's most liberal capitalistic society with more than 200 years of existence. Agriculture is still a gamble on the monsoons and a gamble on the markets. Out of 1.26 million registered companies in India, 67 are agricultural companies, forming 0.008%; adding 7,374 FPOs, they still form a mere 0.59%.While farmers are conveniently using without any hesitation creating sizeable market for all products of corporates such as tractors, power tillers, mixers, grinders, washing machines, refrigerators, motorbikes, sprayers, dusters, combined harvesters, mobile phones, WhatsApp, Google on the one hand, they are being continuously misled by ill informed / misinformed economists, farm leaders that corporates / big agribusiness corporations will exploit them, with no factual basis. When Kentucky Fried Chicken (KFC) entered Bangalore in 1995, the farmers' associations agitated that KFC will take over the entire poultry industry and poultry farmers have to be subservient to the corporate! However, KFC created market for local poultry farmers. Why are we not wanting farmers to benefit from the technology and capital injection in agricultural markets, such as E-NAM for instance, while other sectors are benefiting

On the other hand, Simply Fresh, set up by two India IT professionals returning from Australia investing Rs. 130 crores are producing 10 tonnes of organic fruit, vegetables, medicinal plants per day in Hyderabad creating local employment; DeHaat is causing for 50% increase in farm incomes in Bihar, UP, Jharkhand and Odisha through access to quality inputs and market linkage to 4 lakh maize, wheat, banana, litchi, vegetable farmers. Stellapps in Bengaluru is digitising supply-chain for 20 lakh dairy small farmers from 33,000 villages, managing 11million litres of milk per day. Mahindra and Mahindra are producing 40% of India's tractors. In Bidadi, Karnataka, Namdhari's are extending Contract farming facilitating cultivation of quality vegetables by small farmers to export to EU. In Malur, Karnataka, enterprises such as Y-Look, More, Max-hifer, Future Consumer, Nijna Kart, Big Basket, Farm Fresh, are procuring quality fresh fruits with assured prices based on quality. Here, farmer-sellers are first registered and informed about a certain quantity and quality of vegetables to be supplied to outlets in advance, with cash proceeds deposited in bank account in time.

India's agricultural markets need injection of capital and competition with the Governmental commitment to reform benefiting the small and marginal farmers by providing them a voluntary transparent mechanism to choose the buyer of their choice in selling as well as in contract farming. Farmers can and will continue to sell in APMCs and benefit from MSP, and their right to sell outside APMCs and the right of buyers to buy outside APMCs cannot be infringed upon. The Government should accordingly not repeal the farm laws, and instead provide farmers the opportunity to realize greater proportion of consumer rupee which has been abysmally low (below 50%) due to market inefficiencies.

Bitcoin ban, censorship and the papa state

Is the State a strict, bad-tempered parent who always wants to have things his or her own way, simply to prove that it knows what is best for its children? Or should the State be an understanding and indulgent parent who allows its wards to grow up with freedom, and yes, make the occasional mistake, face the consequences, and learn from them? This is a choice every State has to make. And we citizens have no option but to fall in line with that choice since we have given the State, as indeed we gave our parents, that power over our lives.

The ban on cryptocurrency has once again raised concerns about curbs on free choice

According to a recent news report, over one crore Indians hold digital assets worth Rs 10,000 crore and they will make losses as a black market for cryptocurrency emerges. This has happened in the past as well, whenever we have banned anything.

Take alcohol, for instance. All that bans have encouraged is bootlegging. And more deaths from illicit hooch. Take the ban on lotteries. Or casinos. Or, for that matter, betting on cricket. All, illegal. All, banned in many states. Yet today we are flooded by internet lotteries.

Casinos have moved offshore. And betting on cricket is currently estimated at Rs 4 lakh crore, marginally less than our defence budget.

Also, funnily, what's banned today may well be deemed perfectly good tomorrow.

Governments change. Ideas change. Notions of right and wrong change. The mysterious Satoshi Nakamoto's wondrous invention in 2009 (bolstered by Elon Musk's US$1.5 billion buy a fortnight back and his announcement that Tesla car dealers will soon accept Bitcoins) may well see it emerge as a global currency. It's trading at Rs 35 lakh today. Does anyone want a RBI-backed cryptocurrency? Not really. It defeats the purpose for which it was invented. To celebrate the anonymity of blockchains mining it.

Alcohol, on the other hand, is an old enemy of the State. Taxes and excise income from alcohol are huge (Rs 1.75 trillion in 2020) but it is still politically incorrect to acknowledge that. Bihar's putative chief minister announced last week that prohibition remains as government policy and any employee caught drinking will be instantly sacked. Similarly, the gutkha and pan masala bans are farcical. Both remain freely available. The shops that sell them also sell loose cigarettes, another banned item.

Censorship is not much different. But, luckily, nothing ever stays censored for long

Everything finds its way on the net. There was a time when censorship was worse than a ban.

Take the Emergency years. Newspapers were published with missing headlines and empty spaces. Cartoons were dropped. (Governments have no sense of humour. Cartoonists are often arrested and we have just seen a stand-up comic Munawar Faruqi arrested before he even cracked a joke.) During the Emergency, the Censor Board wanted 51 cuts in a B grade film called Kissa Kursi Ka. But that was not enough for Indira Gandhi who got the print picked up and burnt. It was a silly decision because the film instantly acquired cult status and Amrit Nahata, its maker, became a hero.

Frequent internet shutdowns, be it in Kashmir or on the outskirts of New Delhi where the farmers are agitating, have brought no glory to India, only unwanted global attention. The State of course may not see it in that light. No State does. It is not about democracy or fascism. It's about power. The wielding of power. If you allow the State to wield that much power over you, it will. You can do nothing about it till you decide to make that complete break, as children often do with their parents. Not because their parents are bad people but because their need for freedom becomes, at some point, more important.

In India, we tend to mostly believe that children are always wrong. And that parents are the ultimate epitome of all virtue. Bollywood has stereotyped the mother as a long-suffering parent beavering away on the sewing machine, and the father as this struggling bread-earner always misunderstood. Our myths and fables perpetuate this notion as well. And reluctant parents have no option but to live up to this absurdly noble image of what they should be–instead of living their lives as they want to. Children, too, are expected to abandon all their freedoms to be the ideal offspring.

The result? More broken families. More psychoses.

The truth is: Freedom is not dangerous. It liberates us. It does not draw us away from each other. Freedom is when parents and children live together with mutual love and respect.

Where they support each other to take risks, make mistakes, discover life together.

It’s the same with the State and its citizens. They must learn to live with each other’s follies. Repression is not the answer. Bans and censorship are not the only way to exercise authority or teach people the difference between right and wrong.

Many banned books are classics today. Salman Rushdie’s Satanic Verses is a must read.

Guccione’s Caligula is cult. Stanley Kubrick’s Clockwork Orange is included among the ten great films of all time. James Joyce’s Ulysses is syllabus for students of literature. No one considers Anais Nin’s The Winter of Artifice as pornography any more. The use of marijuana is being increasingly legitimised across the world. New generations are discovering new virtues in stuff we were once forced to shun.

Loyalty in the time of a pandemic: Customers prefer brands with a social cause

Amidst the pandemic, a survey of urban Indians revealed an interesting twist: When the price and quality are comparable, as many as 65% are likely to switch brands to help support a cause. Now more than ever, a cause-related marketing programme must demonstrate and communicate a genuine support of the cause if a company wants to optimise the effects on customer loyalty.

The concept of cause-related marketing was introduced in 1983 with the American Express’s programme to help restore the Statue of Liberty. During a three-month campaign, AmEx raised $1.7 million for the restoration project, generated by a combination of a percentage of AmEx card purchases, a percentage of AmEx travelers’ cheques and vacations sold, and a dollar amount for new credit card customers. The results of this programme for AmEx were impressive: AmEx card usage rose 28% and new card applications increased by 17% during that period.

Just a month ago, Mercedes Benz India advertised across media that it would donate Rs 15000 per car sold to PMCARES for the first 100 buyers of its C-Class. They probably didn't have to do that given that the festival season normally brings upswing in sales, but perhaps some customers may have chosen Merc over its rivals for this cause.

Today, there are countless cause-related marketing programmes around the world by all types of brands. Remember the recent Burger King ad requesting their patrons to also buy from McDonalds and others to save jobs that are affected by the lockdown? For a corporation, the benefits include building brand and customer loyalty. There have also been many cause-related marketing failures too, and the primary reason is the public's perception that a company is not genuine in its support of a cause. McDonalds faced the ire of Black community despite their supportive ads during the #BlackLivesMatter campaign. Remember the Aircel and Save the Tiger campaign? Do you think it benefited the brand in any manner?

Key factors that increase customer loyalty with a cause-related marketing programme include aligning the cause with the company's social responsibility statement. Equally important is a non-profit partnership that is effectively developed and managed. Finally, a long-term partnership shows more of a commitment to a cause than a short-term promo, and can help build loyalty.

When developing a cause-related marketing programme, a brand needs to understand the partnership's relevance, which is communicated most easily when the company chooses a programme that aligns with its CSR plans. The CSR statement documents a company's social values and why it supports a cause, and is often used in press releases and marketing materials. When designing a cause-related marketing programme, the CSR statement needs to be used in programme communications so that stakeholders understand its validity. Support of a specific cause needs to make sense to customers. Once a cause has been defined by a company's social responsibility statement, executives can evaluate prospective non-profit partners against it. The following guidelines may be applied.

Start by evaluating whether the non-profit organization's mission and values fit with the company's social responsibility statement. Companies will generally create an employee volunteer team to review a non-profit's financial stability, board governance, operational effectiveness, administrative capabilities and success with other partnerships. This research is critical to the success of a cause-related marketing programme. Partnering with a non-profit is different from a traditional business partnership. Non-profits are generally understaffed, but passionate about their mission.

A successful cause-related marketing programme starts off with measurable expectations, a measurement process and defined responsibilities for both parties. A poorly managed partnership can produce dismal results. Customers are savvy and if they think a company is using a non-profit to benefit only them, customers will speak out and act against it by boycotting their products and services. Though McDonald's supported the black lives matter campaign, customers were upset that it was not truly into it because of the poor safety protocols for black employees during the pandemic lockdown. Though too early to cateorise it as cause marketing, the recent Tanishq campaign could have been managed better.

The last important step in a cause-related marketing plan is to develop an integrated employee volunteer programme, which demonstrates genuine support of the cause. Without visible employee involvement and executive commitment, a company's cause-related marketing programme will not produce the planned loyalty results – customers will not perceive the company as fully committed to the cause.

When developing such a programme the project team must include representatives from human resources department who should drive the creation, management and implementation of an employee volunteer programme. They will develop and measure specific volunteer goals during the cause-related marketing programme, such as number of employees involved in specific activities that provide visibility for the company.

Although cause-related marketing has evolved across the world, India is only waking up in recent times just as social responsibility of India Inc had to be mandated by a government CSR plan. Companies should quickly realise that no longer would lower prices or offers alone provide the loyalty results companies seek. Customers will overwhelmingly respond to cause-related marketing campaigns that have senior level management support, and that demonstrate the company's genuine support of a cause by integrating visible employee volunteer efforts and are part of a long-term partnership.

Too much prudence with bad loans is bad

The reported proposal for banks to sell only bad loans that have been fully provided for to the bad bank proposed in the budget is, at one level, prudent, and, at another, too prudent. Any receipt against a loan that has been fully provided for will go straight to the bottomline. However, holding on to partially provided for bad loans will not serve the purpose of liberating the banks to start lending aggressively to fuel economic recovery.

Whatever kind of bad assets are transferred, two kinds of questions will remain, about the bad loan's origination and pricing for transfer to the bad bank. Was there any mala-fide in the original sanctioning of the loan? This cannot be addressed by the choice of what types of assets are transferred to the bad bank. What is the fair price for the bad loan that the bad bank buys from the bank? The valuation problem can be addressed by letting a third party determine a value and having that reviewed by another set of eyes, as was successfully done in the first bad bank experiment in Pittsburg.

Mellon Bank of Pittsburgh set up Grant Street National Bank to buy its bad loans and resolve them. The unit was partially backed by junk bonds underwritten by an investment banking firm. The pricing of the loans for sale at a discount was done by accounting firm Arthur Andersen & Co, following which the price was reviewed by Kenneth Leventhal & Co. Similar arm's-length pricing makes sense for India's bad bank. An oversight committee will help protect the integrity of decisions taken by bankers. The bad bank must be run professionally and maintain an arm's-length relationship with the bank. In tandem, the bankruptcy courts must do their job efficiently, and the market for corporate bonds must mature.

Consumption of highly processed foods – a boon or a bane?

Market economics promotes value addition in food due to growing urban population, employment generation due to increased demand for processed products in grains, sugar, edible oils, beverages and dairy products. Further, value addition in food processing is expected to reduce wastage. Being the second largest producer of food, less than 10 per cent of food is processed in India. Is this a boon or a bane?

Highly processed foods require inter alia use of sugar, refining, oils. Highly refined grains are used in most processed foods, to improve shelf life, texture, appearances, stripping the essential fibre and nutrients crucial for gut microbiota. Fortification with synthetic vitamins and iron cannot compensate for vital ingredients lost in refining. Use of highly processed vegetable oils where hexane is used as solvent in food processing is also common.

Major energy intake in high-income countries is from ultra-processed foods and beverages. In the US, consumption of ultra-processed products contributed 60% of calories in packaged food and beverage purchases from retail food stores by households, 55% of calories purchased in Canada, 51% in UK, 49% in Norway. Industrially prepared highly processed foods which required no/minimal domestic preparation contributed to 60% of energy intake in EU, 56% of home food expenditure in Australia, 84% of packaged foods in New Zealand. Studies have shown that consumption of ultra-processed is associated with risk of obesity, increase in LDL cholesterol, and risk of hypertension. While the growth rate is food processing is impressive, how harmful have been the highly processed foods is crucial. In the US, 74% of men and 68% of women are overweight or obese. More than 60% of American diet is from highly processed foods of grains with different combinations of sugar, salt, oil, additives, with a high proportion in junk food category due to use of refined grains, sugars, emulsifiers, dough conditioners, preservatives.

Demand for processed food market in India is expected to grow at an impressive 14.6 percent. The creation of Ministry of Food Processing Industries (MoFPI) has been to encourage investments across value chain, with focus on agro processing, cold chain, food processing, operation greens, linkages, and Food testing labs. Should the Ministry of Food Processing Industries promote manufacture of highly processed food or promote relatively more of primary processing? The operation greens for instance, aims to promote FPOs, agri-logistics, processing facilities and professional management in general and for integrated development of Tomato, Onion and Potato (TOP) value chain.

The consumers in India still prefer fresh produce over processed food. Perhaps our relatively slow pace of urbanisation and low labour force participation of women have resulted in the preference for fresh foods. With both men and women in families entering labor force, consumption of processed food may increase due to paucity of time for domestic cooking. Thus, with increase in urban and young population, demand for processed food will increase and has a demonstration effect on rural population.

Type of food eaten is linked with prevalence of NCDs (non communicable diseases) -diabetes, heart disease, cancer, Alzheimer's leading to more than 70% of deaths. Worldwide about 41 million people die every year from preventable conditions. Thus, diet is becoming the top risk factor for mortality.

Given the harmful effects of consuming highly processed foods as advanced countries are already experiencing, it is desirable to promote primary processing in India rather than secondary and tertiary processing of food. Primary processing not only creates local employment, but also sustains them due to creation of healthy foods. The processing tur to tur dhal, and similarly all whole grams (green gram, black gram, Bengal gram…), millets to flour, Soji, making available fresh cut pineapple, fresh cut pomegranates, fresh cut jackfruit, Ragi to ragi huri hittu, vadda ragi hittu, preparation of local processed foods such as chakkuli, vade, kodubale, nippattu, uppinakai, kharaseve, kobbari mitai, sandige, hurigaalu, which still has great local demand for instance are a few examples.

This also promotes use of fox tail millet, kodo millet, proso millet, little millet, barn yard millet, brown top millet, which are climate smart crops, as they sustain the late rains with drought tolerance yielding nutrient rich fodder and help small and marginal farmers from dry land areas of India. This will also reduce the area under crops which dominated the green revolution paddy, wheat for which sufficient stocks are available and promote millets, which require 1/5 th of water used for cultivating paddy. These millets address not only the nutritional deficiency but also health as they contribute to dietary fiber. These promote not only healthier and fresh foods, but also reduce the risk of consuming unhealthy highly processed foods. We need to realize that our everyday food choices directly affect our health. This emphasizes the need to feed our body right, else the body will eat us. The real food is high in fibre, while highly processed food is not. Reducing consumption of highly processed food as much as possible benefits is a win-win for all.

Budgetary allocations matter more than the speech

Finance Ministers have an uncanny way of figuring out what makes the fish bite and neutralizes the sceptics. Nicely rounded words in the budget speech – like phonetic “quick wins” – come in handy to send the roosters crowing a new Dawn.

FM Sitharaman’s salad dressing for FY2021-22 was to present the possibility of, what economist Sajjid Z. Chinoy, a member of the Prime Minister’s Economic Advisory Council, was moved to describe somewhat floridly, as a paradigm shift in public policy (Indian Express February 7). The three prongs of change being first, asset swaps to finance infrastructure, second, a new PPP model with the public sector building infrastructure and then “monetizing” assets to finance a virtuous cycle and finally transparency in the budget data.

To be fair to the FM, she either never heard the music in her own budget or was honest enough to know that the music was ephemeral. She structured her budget around the six pillars of Health, Physical and financial capital, Inclusive development, Human capital, innovation and Minimum Government and Maximum Governance.

That India under funds infrastructure is well known. We also seriously under fund education and health. The BJP is committed to infra-spend as demonstrated earlier by the NDA and thereafter again under the present government. Health and well-being are new and welcome priorities for the party. Defence spend is a traditional priority, which was shortchanged in the FY 2021-2 budget with a paltry 7% increase over the current year BE.

Sadly, the degrees of freedom to reallocate spend, available to any Indian Finance Minister, are limited. India is a big unwieldy bus with a very wide turning circle, so changing course suddenly, is difficult. The toughest is to divert spend away from "political pork" – referred to as "political economy constraints" in polite circles and instead to fund merit goods, stuff which generates "positive externalities" and "inclusion" – jargon, for promoting environmentally better and continuous growth whilst sharing the growing pie better.

An existential problem is stagnant government revenues, especially for the Union government. Its revenue to GDP ratio (after transfers to state governments) was 7.9% in 2008-09 which slid to 6.9% in 2015-16 with some recovery in 2016-17 at 7.2%. In comparison states became cash rich with a revenue (including Union transfers) to GDP ratio which consistently increased from 8.4% in 2008-09 to 10.4% in 2016-17 (MOF, Public Finance Statistics).

This inter-government transfer of resources to the states is a manifestation of "good intentions" around cooperative federalism and should be recognized as an achievement rather than a problem.

Sadly, it was not accompanied by an internal review of Union government allocations to move funding away from non-core areas, where the states are prime movers and towards its core mandate – defence, diplomacy, security, Rule of Law, national infrastructure, energy, foreign trade – particularly exports, integration of markets-particularly financial markets and determining national standards where network effects are dominant.

Also missing has been the necessary transition from direct supervision of state governments programs to light handed regulation. Federalism implies privileging contextual solutions to local issues and is inconsistent with pervasive one-size-fits-all national programs.

The good news on this score, is that the FM was sensitive enough to specifically include in the budget speech that states would be "nudged" – not directed, but incentivized – to allocate more for capital expenditure – which is exactly the right way to go. A generic light-touch approach to national development is to be welcomed.

Too much of what the Union government does, pre-empts what states should be initiating. Not surprisingly there is not enough money for everything.

It is fair to assert that pillar six of the Budget – "Minimum Government and Maximum Governance" will remain in the books unless the Union government disintermediates its direct association from areas which are the core mandate of the states though one must recognize that with the burden of 75 years of history, this can only be hoped for over time.

The use of the "P" word – "Privatization" instead of disinvestment as was the norm, has enthused stock markets and analysts. But triangulation with the underlying budget raises questions about the timeline.

The head "disinvestment receipts" budgets for just Rs 1.75 trillion, even lower than the Rs 2.1 trillion budgeted this year. Listing LIC and disinvesting a small share (3%) of its stock can fetch as much. Why this lack of ambition, if the intent is to finance capital spend (Rs 7.7 trillion per year) from the sale of existing public assets rather than the general revenues? Could it be that the "P" word of "Politics" overrides the commitment to privatization, as history suggests?

The stated intent to raise revenues by monetizing operational public sector assets is similarly unsupported by a significant increase under the head "receipt of dividends from PSE and other investments" which are budgeted at just Rs 0.5 trillion- again displaying a lack of ambition.

The transparency and care with which the budget has been prepared gives the lie to this being an oversight. Far more likely, the “paradigm shift” is slated to happen only once the state elections are over and conditional on the BJP doing well. Such caution is not unusual for democratic governments, which sway with the breeze blowing from the public.

The time for hitting the “sweet spot” of large-scale privatization, is once growth revives, not when it is shackled on four counts. First, the uncertainty around the pandemic, the associated job-loss and high levels of household insecurity. Second, the deepening financial crisis in public sector banks. Third, the enduring lack of demand in the economy. Fourth, the dilatory timeline of a trickle-down strategy for reviving incomes.

A “P” word which denotes “Prudence” suggests that continued contra-cyclical measures to support aspirational employment and poor incomes – which the budget does insufficiently- take precedence over “jump-starting” a scarred but healing economy.

The record of publicly financed infrastructure development (power distribution assets for example) does not suggest an easy switchover to monetizing operational assets, quite apart from the moral hazard of bringing “lemons” to market.

Can government make MSP=SMP?

Make the Minimum Support Price (MSP) equal to Statutory Minimum Price (SMP) is the major demand of all farmers, farmer leaders including those supporting their demands. Is this possible? If MSP=SMP, then no buyer can purchase from farmers below MSP and if it happens, can be penalized legally. While this demand from farmers seems to be legitimate, the implications on consumers is also crucial. If buyers cannot buy at SMP, they cannot buy below SMP and farmers may have their produce unsold, which leads to another type of chaos. Therefore, coin MSP can be SMP, but with caveats. There is a need to fix the quotas to be procured at MSP=SMP only for those commodities which are essential and critical which Government supplies at Public Distribution System (PDS) under the National Food Security Mission (NFSM) and/or other similar commitments.

Government for example, can announce that it will procure say upto 10 percent of production of Rice, Wheat, a millet and a pulse crop equal to the obligation under NFSM from every State. The quantity to be procured cannot be the entire quantity of production of any crop because this precisely leads to excessive market interference and market distortion.

Dr Varghese Kurian’s classic innovation in milk through AMUL which lead to National Dairy Development Board offers an ideal. Accordingly, in milk, cooperative sector procures around 20% of milk produced while the remaining 80% is by private sector keeping milk prices buoyant. Therefore, the capacities of the Government to store, process, distribute and serve needs to be considered on the one hand and at the same time not to curb private initiatives on the other.

Thus, excessive interference with market should be avoided by any Government, as it leads to market distortion. Market distortion is interference with self-correction mechanism of markets. What is self correction? When Demand exceeds supply of any commodity, price rises till the point Demand = Supply and market clears itself. Similarly, when Supply exceeds Demand, the price falls till the point Supply = Demand and market clears itself. And this market process should be facilitated and not interfered. When the Government interferes with MSP beyond a certain level, this self-clearing mechanism is interfered and it leads to excess production, as it has already happened in the case of rice, wheat in Punjab. Similar experience in EU lead to mountains of butter and lakes of milk!

In addition, making MSP=SMP will make farmers to demand the facility for all crops, list being endless and becomes a very sensitive issue, as farmers cannot be prevented from seeking the facility. Do we want market forces to signal abundance or scarcity for farmers and consumers, or do we want administrative action to do this? Where are the resources with the Government, with more than 50% of vacancies both at Central and at State levels, paucity of procuring centres, man power, vehicles, storage space, processing facility, logistics? in order to procure rice, wheat, tur, millet for 50% of urban population (20 crores) and 75% of rural population (68 crores) the additional cost of 30% of MSP is already incurred. Thus, if Government is procuring paddy at Rs 1850 per quintal, it is incurring Rs. 555 per quintal towards logistics, storage distribution and so on, again has to be borne by tax payers. The Food Corporation of India is already borrowing around Rs. 2 lakh crores towards meeting obligations and in addition experiencing food wastage in godowns.

Thus, the need to limit procurement to at the most 10% of the output of rice, wheat, tur, millet of any State, and limit its MSP= SMP only to this quantity, and fix it across States. While this policy benefits all States, Punjab and Haryana may not be happy as 100% of their rice, 80% of wheat is procured, while only 1% of rice produced in Karnataka is procured. What has been our experience in Sugarcane where MSP=SMP? In Sugar MSP is called FRP (Fair remunerative price), and thus no Sugar mill can buy below FRP. Demand for sugarcane is derived from demand for sugar, referred as “derived demand”. Sugar demand in India is 19 kgs per capita per year while global demand is 23 kgs. Even then, India being global diabetic capital! About Rs 16,000 crores are yet to be paid to farmers for sugarcane purchased previously, of which Rs 11,000 crores is due in UP itself. Global sugar consumption is 185 million tonnes growing at around 2% per year, India’s population growth is at around 1 %. With a FRP at Rs. 2850 per tonne for a sugar recovery of 10% no sugar factory can afford to buy at this price from farmers, since there is no corresponding demand for sugar. There is glut in sugar production to the tune of around 6 million tonnes. If India’s per capita consumption rises to the global average of 23kgs per year, then domestic demand will climb by 5.2 million tons a year and this may help. So, shall we all begin consuming more sugar? Do we advise consumers to increase sugar consumption on the one hand and advise farmers to limit their sugarcane on the other? Ultimately market forces of demand and supply cannot be discounted.

Another solution is price deficiency payment scheme of MP. But, if farmers and traders collude which is not unlikely, trader can issue receipt even without buying, and claim the difference between SMP and market price and then share this difference with farmers and therefore Price Deficiency Payment scheme did not take off. Certainly, the truth is not popular. Farmers, consumers, policy makers, farm leaders, all the stakeholders for whom agriculture is crucial need to appreciate these issues.

Disclaimer: ANALYST CERTIFICATION I, Mr. Anshul Jain B.com, Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. 'Subscriber' is the one who has subscribed to the Research Reports in various forms including Research Recommendations, Research SMS Alerts/Calls, Fundamental and Technical Research calls, Investment Strategist Magazine, Research/market news etc through Lakshmishree Investment & Securities Private Limited. Subscriber may or may not be client of Lakshmishree Investment & Securities Pvt. Ltd.

Terms & conditions and other disclosures:

Lakshmishree Investment & Securities Pvt. Ltd. (hereinafter referred to as "LISPL ") is engaged in the business of Stock Broking, Depository Participant and distribution for third party financial products. (LISPL) will, at its discretion, provide its company research reports/news, results, and event updates/sector report/monthly commentary/regular compendium, trading call, technical and derivatives reports (together "the reports") as also market news to subscribers either in the form of a written market commentary or research report sent in e-mail, form, SMS or through postal or courier service. A brief extract of the reports may also be sent, on enrolment, in SMS, e-mail form. This document has been prepared by the Research Division of LISPL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of LISPL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security. The information contained in this report has been obtained from sources that are considered to be reliable. However, LISPL has not independently verified the accuracy or completeness of the same. Neither LISPL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein. Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor. Either LISPL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication. LISPL is registered as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014 LISPL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities. LISPL or its research analysts or its associates or his relatives do not have any financial interest in the subject company. LISPL or its research analysts or its associates or his relatives do not have actual / beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report. LISPL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report. LISPL or its associates might have received compensation from the subject company in the past twelve months. LISPL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months. LISPL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months. LISPL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months. LISPL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report. LISPL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. LISPL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. LISPL or its Research Analysts do not have any material conflict of interest at the time of publication of this report. It is confirmed that Mr. Anshul Jain B.com, Research Analyst of this report has not received any compensation from the companies mentioned in the report in the preceding twelve months Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. The research analysts for this report has not served as an officer, director or employee of the subject company. LISPL or its research analysts have not engaged in market making activity for the subject company Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. LISPL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

||श्री|| Lakshmishree Investment & Securities (P) Ltd

401 & 407, Marathon Icon, Marathon Nexgen Compound, Ganpatrao Kadam Marg, Lower Parel, Mumbai - 400013