

Impact of Covid 19 is tremendous on the Indian economy and the global economy.

General Outlook

1. India seems to have suppressed the curve so far. It looks like it might escape the worst of the pandemic, but will have to be cautious about it.
2. Possibility of W Curve – i.e. There is a good chance of re-occurrence of the virus, which could see a possibility of regular lockdowns. Businesses need to plan accordingly.
3. Capital investment will look for countries that are less battered. Western economies are badly battered while countries like India, Indonesia, Korea etc are not so battered. Global Capital could flow into India, if we can act efficiently to pull it.
4. Emotional and Economic backlash against China is expected. Already, countries and companies are working on strategy to pivot away from China as part of their supply chains. Japan Govt has announced packages for it's companies bringing back manufacturing home. Businesses need to keep this in mind and work accordingly.

Discretionary Spending

1. For individuals, health and safety will become No.1 on their agenda from the 3rd of 4th place. There will be more spending on this area and reduction in other discretionary spends.
2. The ticket size of spending will drop for a while. People will spend on cheaper goods than on expensive goods, or delay spending for a while.
3. Extreme acceleration in digital economy, i.e. Home education, home entertainment, home fitness, etc
4. Loyalty shock. People will be less loyal towards brands as other aspects will take over. People will switch brands faster due to various other concerns like safety, etc.
5. General Trust deficit. There will be trust deficit amongst stakeholders like vendors, customers, employees, borrowers, banks, etc. Banks will have trust deficit with borrowers, companies will have trust deficit with suppliers, etc.

Liquidity and P&L

1. Segregate Good Costs and Bad Costs
 - a. Good costs (Eg. Digitization, tech costs, digital marketing, best employees, etc) need to be insulated and protected
 - b. Bad Costs (Eg. Fancy office, unnecessary spending, bad performers, traditional working methods) need to be ruthlessly eliminated. Don't be emotional about non-core businesses. Concentrate on core business.

2. Be Frugal – Not necessary to have fancy office, fancy cars, excess employee strength, etc. Remove all the flab and be lean.
3. Maintain Good behaviour – have frank and open conversation with all stakeholders like suppliers, employees, etc and try to find the middle ground, so that the burden can be shared justly.
4. Be Future Ready – In this crisis, there will be winners and there will be losers. Those who re-orient their strategy will be winners.

Govt Stimulus

1. Economy was in poor shape even before Covid. The govt has little leeway to provide large stimulus.
2. Govt earns about \$60-70 billion a week from taxes. Imagine what a hit a 5-week lockdown will have. Size of Indian economy is about \$3 Trillion. In some scenarios, it is predicted that Govt could take a hit of nearly \$1 Trillion.
3. Inequality has already sharpened. The gap between rich and poor has further increased. Govt needs to concentrate on mass health and mass welfare. If not, 200 million people could sink into poverty.
4. Govt must explore printing currency (Quantitative easing), but there are limitations here. It has side effects like inflation, etc. Rich countries have more leeway for such quantitative easing.
5. Govt must concentrate on grabbing more capital from outside and do reforms to enable that.

Result of backlash against China

1. Internationally, there could be an emotional and economic backlash against China.
2. Businesses with supply chains passing through China will need to keep this in mind and insulate themselves and build alternatives.
3. India and Indian businesses need to try to become the contract manufacturer of the world, just like China is. India needs to make use of this opportunity smartly.
4. All big wealth funds and sovereign funds will be awash with Liquidity. This liquidity needs to be attracted to India.
5. In every sector, there are good and bad companies. Management has to invest correctly in manufacturing and modern tech, be honest and fair to all stakeholders, etc., Those companies with good management and displaying good behaviour will come out victorious.

Export Business

1. Indian exporters need to build trust. They need live up to promises made. They need to deliver on time and deliver the promised quality. They shouldn't make incorrect promises just to get more business.
2. Bangladesh export business has built trust and a good reputation. Despite a chequered past (low quality, human rights issues, etc) they have managed to overcome and are winning.

Wholesale, Retail, etc.

1. More people will prefer to buy from retail stores where there is perception of safety (Eg. Sanitation, cleanliness, crowds, etc). They will move more towards malls away from markets. Many will move towards online stores. Wholesale suppliers also need to concentrate on such retailers.
2. Customers also need to be ringfenced:
 - a. A high end restaurant in Delhi is giving 40% of bill value as a gift coupon to be used anytime upto December 2020.
 - b. Car companies are giving buy back offers, incase the customer loses his job in the next one year.
3. Pricing needs to be re-approached. People are looking for cheaper prices or cheaper goods.

Brick & Mortar in Discretionary Spends

1. Cinemas could take a big hit in the near future. Entertainment could move home.
2. Because of this, cafes and restaurants might see some increase in business. Many chains are implementing measures like social distancing like lesser furniture, etc, to build confidence to consumers.
3. Smaller retailers need to send a message of safety. Eg: Have sanitisers, put up notice of no Covid positive employee found in the store, maintain social distancing, etc.
4. Since travel and tourism will take a big hit, connected purchases will also shift. Purchases that happened abroad will happen at home. (Eg. Electronics, Luxury goods and apparel, etc.,). But travel related purchases will drop.

Real Estate

1. Indian real estate economy is already sitting on a huge inventory with a huge cost-of-carry

2. The industry is highly leveraged with low margins.
3. Unsold inventory is considered as an appreciating asset, but might turn out to be a flawed view.
4. Market was already overdue for a huge reset, which will be accelerated by the pandemic.
5. Also, the sharing and co-working space could be hit as more businesses try to have their own smaller spaces and more WFH employees.

Jewellery etc.

1. Gold-as-an-asset is already on all time high and could see further appreciation.
2. Jewellery, as a discretionary spend, will take a hit.
3. The Indian wedding industry will take a hit, as social distancing, cost consciousness, travel avoidance, etc., will prevent fat weddings, destination weddings, etc. This will hit all connected industries. (Eg. Silk, partywear, etc)

Financial Markets

1. There will be value destruction and value creation in different companies in the same sector.
2. High Debt low margin companies will find it difficult. (indicates risky or unscrupulous management)
3. High Debt high margin companies could be rewarded, but caution needs to be exercised. (may indicate sharp or dynamic management)
4. No debt high margin companies are best rewarded now.
5. Know more about the CEO and management and their actions and activities.
(Eg: 3 branches of Starbucks were kept open in India for last few days. The CEO of Starbucks India sat in the Fort (Mumbai) branch throughout the day to give his employees confidence and motivation)
6. New tech unicorns will be born. Those involved in cyber security, cloud services, online education services, etc.

Forex Markets

1. No doomsday scenario (i.e. Dollar will become 90 rupees etc). Such scenarios don't seem realistic

2. Govt should be buying as much oil as possible, as such prices may never be seen in the future of oil.

3. As the western economies are more battered and Indian economy is less battered so far, there is more liquidity coming in. That's why there is a rally in the market. This scenario could change depending on the spread of the disease in India.

4. Watch out for sharp spikes in the market. Better to avoid the spikes.

Outlook for near future.

A. Large Companies

- a. Huge concern seen for employees. Companies are paying the employees even when closed.
- b. HUL Decided not to cut a single rupee for their suppliers, service providers, etc. No haircuts.
- c. Safety of employees and customers is becoming a major point of focus.
- d. This is possible because they have reserves of funds, etc that have been built up over the years.

B. Medium and Small businesses.

- a. They have to work with thin capital reserves. Excess capital is taken out of the business and applied into personal assets.
- b. Small businesses take out the surplus and purchase personal assets instead of re-investing in the business. There are various factors and motivations here.
- c. Because of this, they are unable to meet the cash expenses of even the next month.
- d. A high end restaurant chain in Delhi (with Rs.40 crore annual turnover) is unable to pay the salaries of the current month as it has no liquid reserve. Owner has invested in personal assets like house in London, etc.
- e. Medium and Small business need to have a look at how they can build some business reserves to endure such disruptions.

Force Majeure" in Contracts

1. Should force majeure clauses be triggered in various contracts like rent, supply, etc? It will lead to litigation, but there is no point in getting into litigation now.

2. All parties have been affected by the crisis. The tenants, the landlords, the lenders/financiers, etc.

3. Parties need to sit across the table and find a common ground and mutually decide upon the costs, rentals, etc. Burden has to be shared.

Work From Home Scenario

1. It is possible for lot of employees to not visit the office and still be productive.
2. In RBL corporate office, it is found that it is enough that only 30% staff stay in the office. Others can be connected from homes. This leads to lesser commute expense, stress of the commute, time wastage etc.,
3. Parents can take care of children more effectively when WFH. There can be dark hours when no calls will be made, etc.,

Optimism

As per a McKinsey survey of entrepreneurs released few days ago, 53% of Indian entrepreneurs are optimistic, while only 25% of Japanese entrepreneurs are optimistic.

It seems to be a mild U-Curve for the Indian economy. But the descent has not stopped yet.