

'If equity shareholders do not make money, you will not get equity capital'

AS PRIVATE investment continues to suffer and equity returns have stayed low, RAKESH SINGH, group head, investment banking, private banking and capital markets at HDFC Bank told SANDEEP SINGH that return on risk capital must be ensured so that people make money. He further said that moderate levels of inflation is required in the economy for better wage growth, stability in asset prices and rise in consumption. Edited excerpts:

Do you see a revival in private investments in the economy after the announcement in corporate tax rate cut?

In sectors where there is excess supply already, a company may not undertake capital expenditure. We must incentivise and get companies to set up base for manufacturing and even exporting electronics, metro rakes, solar panels and other stuff that we are importing presently. Our issue is on demand generation side. One way to generate further demand is by way of personal income tax cuts to encourage consumption. The recent announcement on reduction in corporate tax is an excellent step by the Government and will incentivise corporates particularly MNCs to set up manufacturing base for local consumption and even exports. In my view, the second half of the year should be better with farm growth due to bountiful rains and the festive season.

Besides, the Centre may take sector specific measures. For the auto sector we may need a scrap-page policy. Reintroduction of tax benefits for second house purchase, reduced or temporary waiver of stamp duty etc to help liquidate the home inventory is an option. I think that the government is best placed to incentivise and take the trade off between tax cuts and higher tax collections driven by consumption. The cyclical part of the slowdown is temporary as efficiency gains due to measures taken by this govt and change in consumption patterns may need to be balanced by policy measures and some sector specific tax cuts to boost consumption. Also, as far as fiscal deficit is concerned, I don't see it as a big issue. The whole world is fearing slowdown and in such an environment such measures are required.

What do you think needs to be done?

When we protect basic level of investment in the industry and



Rakesh Singh

investors make adequate returns, incremental investments will flow in. We must recognise that equity is the riskiest form of capital and if equity shareholders do not make money, we will not get equity capital. So, we have to ensure that there is return on risk capital. Once risk capital generates return, it becomes a pool and gets redeployed in the industry and the country.

What do you think needs to be done for demand push?

The thing to give further impetus to demand is to ensure that you have lower prices that encourages consumption. Wages must go up, particularly in the private sector. Low inflation is leading to low wage growth and I think the biggest elephant in the room is low inflation. I think we should have moderate levels of inflation in the economy.

How is low inflation hurting the sentiment?

In absence of inflation, we are seeing correction in asset prices. Also the value of assets owned by individuals have gone down in low inflationary environment and that hurts.

Everyone wants growth. What moderate levels of inflation do is, they bring better wage growth, stability and growth in asset prices and leave some money in the hand of semi-urban and rural for consumption. Inflation targeting such that there is moderate levels of inflation may be a good idea. Instead of 3 per cent, we should have CPI of 4-5 per cent.

Do you see the steps taken by government are meaningful?

The steps are in the right direction. What the government is doing is unprecedented. We may need increase in farm prices for the farmer which will lead to higher surplus in the hands of rural and semi-urban population.

That will lead to rise in rural consumption and the ruboff effect of this move will come to the industries too. Some amount of inflation should be encouraged, however, it should be calibrated so that it doesn't run away.

Are large investors putting money into equity?

People are not committing incremental money into equities as the earnings outlook is still evolving. While return on equity must improve, India's corporate capital pool and profit pool must increase. Recent tax cuts will help but we also need higher consumption. If the reward for risk is higher, you are more likely to see people keen to take more risk and commit capital to newer projects. We saw this happen in road projects, transmission and solar in the recent past.

Which companies do you think will do well in the current times?

I believe large cap companies will do well as they have access to capital, people and technology. We are in a consolidation phase in the economy where large caps are bound to do well because they will take market share from smaller players who are not well capitalised, who don't have access to the same quality of technology and people. While large caps will continue to show growth, mid and small companies that are sectoral leaders and have technology strengths will grow. But if they don't have access to them then irrespective of their valuations, they will suffer.

It is a very good time for well established companies that have been run properly. The problem is where people were trying to run a company with not so strong fundamentals.

Do you think the government should provide protection to certain sectors?

There are two sets of industries, the ones that are affected by international competition and others that are not. While both have witnessed impact on demand, it's the ones that are impacted by international supply side competition that are more affected. If there is supply side excess in the world and companies worldwide dump their stock at a certain price in India, our domestic companies are unable to compete and we may need to find a way to address this, protect industry and jobs in the same way other nations do.