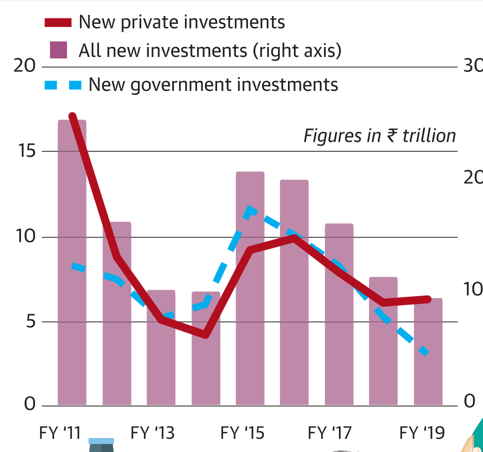
Investment woes

New investment proposals in FY 2018-19 added up to ₹9.5 trillion, the lowest in 14 years (since 2004-05). Financial statements of companies show that they have been very reticent, in recent years, in investing in fixed assets. Companies have not only shied away from investments in new capacities but also retained much less for future investments, Centre For Monitoring Indian Economy data shows

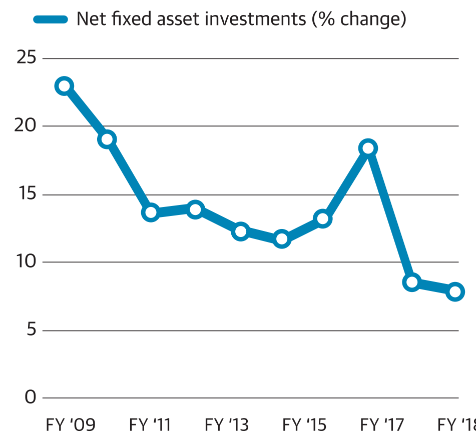
Consistently low

2018-19 would be the fourth consecutive year of decline in new investment proposals, both private and public. One-fifth of the private sector's investment proposals made in 2018-19 were already stalled. This includes the two proposals made by the beleaguered Jet Airways to buy 150 units of the Boeing 737 Max 8 aircraft for ₹1.31 trillion



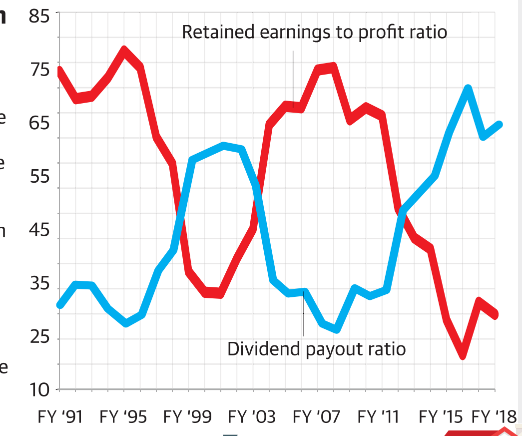
Asset creation

In 2017-18, net fixed asset investments of non-finance companies grew by 7.9% in nominal terms. It was the lowest growth rate since 2004-05, i.e. in 13 years



Distribution of profit

The share of profits retained by the companies for possible future investments has reduced substantially in recent years, even as dividends paid out have picked up, especially since financial year 2006-07



Compiled by Vignesh Radhakrishnan

Source: Centre For Monitoring Indian Economy

INTERVIEW | MANISH GUNWANI

'Election is an important binary event in short-term'

Markets may move higher post polls, says the CIO of Reliance Mutual Fund

ASHISH RUKHAIYAR

The market is likely to move higher in the coming quarters unless there is an unexpected poll verdict, says **Manish Gunwani,** *chief investment officer - equity investments at Reliance Mutual Fund where he manages assets worth almost ₹95,000 crore. Excerpts:*

How do you see the stock market moving as election fervour reaches a crescendo?

■ The general election is an important binary event in the short-term. What we have seen in the past is that irrespective of the election outcome, market quickly adjusts and the entire focus shifts back to fundamentals. The good news here is, business cycle has bottomed [out] in India. Market is currently at an interesting stage where expectations of a sustained up cycle has started to build-in. Unless we have some really nasty election outcome which creates medium-term uncertainties about India's outlook, the market is likely to move higher in the coming quarters.

Markets recently touched new record highs with the Sensex breaching the 39,000-mark for the first time ever. What would you attribute the rally to?

■ [The] Indian market [has been] in a very narrow range in the last one year. There are a couple of specific factors which are helping the market to possibly break on the upside. First is the global market strength. Since the December 2018 lows, MSCI World [Index] has rebounded by 19%. Emerging markets, too, have risen by around 15%. The benign global backdrop has helped Indian markets to rise. Secondly, post the escalation of India-Pakistan conflict in February 2019, market has started to increasingly anticipate the second term for the NDA government. So, increased hope of political stability along with benign global backdrop has contributed to this rally.

Foreign flows have been quite strong in the recent past and are being looked upon as one of the reasons for the recent rally...

■ Over the last few years, FII positioning in Indian equities has consistently declined. Excluding the passive inflows, India has witnessed net outflows from the active FIIs between 2015 to 2018 as they reduce India's overweight to neutral. Since the December 2018 lows, emerging markets in general have received significant inflows.

In the last three months, FIIs have infused over ₹50,000 crore in Indian equities. This is the highest three-month inflows that India has received since [the] NDA victory in 2014. Despite such large inflows in the short period, FIIs overweight on India is at a multi-year low. Unfortunately, India could not provide earnings growth leadership in the last few years and that has led to decline in FII overweight. With business cycle recovery clearly visible and the improved odds in India's favour to regain earnings growth leadership, there remains considerable scope for the FIIs to catch up in coming years. So, unless there is some major political accident or policy mistake globally, the flows towards India should be buoyant.

How do you see the mid-cap and small-cap segments performing this year?

■ After a stellar run in 2017, broader markets significantly underperformed in 2018. There were clearly some excesses in the form of elevated valuations and ownership which were appa- rent at the end of 2017. Most of these excesses have been corrected as mid and small cap stocks have undergone a sizeable time and price correction. Despite correction, the valuation for broader market is still not inexpensive. That said, there are select pockets looking attractive within the mid and small cap space now.

UPI sets searing pace while e-wallets wobble

From just over ₹27,000 crore in April 2018, transactions via the UPI platform vaulted to ₹1.35 lakh crore in March 2019

TCA SHARAD RAGHAVAN

While digital payments overall have been growing strongly, people are changing the way they transact, choosing bank-to-bank methods such as the Unified Payments Interface (UPI) over other instruments such as e-wallets.

An analysis by *The Hindu* of data from the Reserve Bank of India (RBI), the National Payments Corporation of India (NPCI) and some industry players from April 2018 to March 2019 shows that not only is the UPI platform outperforming e-wallets in terms of the value of transactions done, but it is also eating away at e-wallets' market share in specific areas such as person-to-merchant (P2M) transactions.

Payments made on the UPI platform saw a remarkable growth of over 400% in the April to March period, from a little more than ₹27,000 crore in April 2018 to ₹1.35 lakh crore in March 2019.

Completely interoperable

"UPI is completely interoperable and as such, it is unique in the world, where you have an interoperable system on the 'send' and 'receive' side," said Hemant Gala, head-payments, banking and financial services at PhonePe.

"That is, you can send money from different accounts in different banks and receive it in different accounts in different banks. This was a solution designed to be mobile-first, and it shaped that ecosystem because customer adoption of mobile was growing very strongly."

The rapid growth of UPI is accompanied by a reasonably strong growth in the value of transactions done using e-wallets, but the latter's growth has not taken off much following the fillip it received in the aftermath of demonetisation in November 2016. E-wallets saw total transaction value grow 210% in the November 2016 to March 2017 period, but this has since slowed to 123% in the April 2018 to February 2019 period.

In absolute terms as well, transactions done using e-wallets in February 2019 (₹16,497 crore) are only 15% of the size of the total transaction value on the UPI platform.

Data from Razorpay – for the percentage share of each payment method in payments made by customers to merchants – also shows that e-wallets are losing ground to UPI. E-wallets accounted for 6.3% of all customer payments made to merchants in 2017-18 and UPI accounted for just 1.6%. In 2018-19, the share of e-wallet transactions fell to 1.87% and the share of UPI rose to 17%.

The Hindu also contacted Mobikwik, Amazon, Paytm, Truecaller, Freecharge, Ola, and the NPCI but either did not receive a response or the companies declined to comment on record. Those who did comment, even off-the-record, said that UPI was indeed posing a threat to e-wallets, but added that there were some factors that were keeping e-wallets in the game.

"There is definitely competition coming from UPI, because UPI is something even the government is backing and so the convenience factor is much more," the payments head of a major e-wallet company said on the condition of anonymity. "Most people would prefer transactions from their bank accounts itself, rather than going on topping up a wallet, but there are some people who are uncomfortable with the idea of money directly going from the account."

Others argued that the size of the digital payments market in India was such that various instruments could exist without really eating into each other's market share.

> **UPI now offers serious competition to traditional forms of digital payments such as credit cards and debit cards**

Diverse use cases

"If you look at personal consumption expenditure in India, and what percentage of these transactions happen digitally, in India it is about only 3.5-4%," Mr. Gala said.

"India is a diverse country in terms of customers and use cases. UPI has certainly grown tremendously, but every instrument has its own space because of the diverse uses."

"There would be millions of customers who would want to start their digital payments journey using a wallet," Mr. Gala added. "UPI is a great solution, but it has some hurdles to adoption such as linking phone numbers, linking bank account, entering debit card number, etc. Many people might want to start with simpler instruments and then transition to more complex ones."

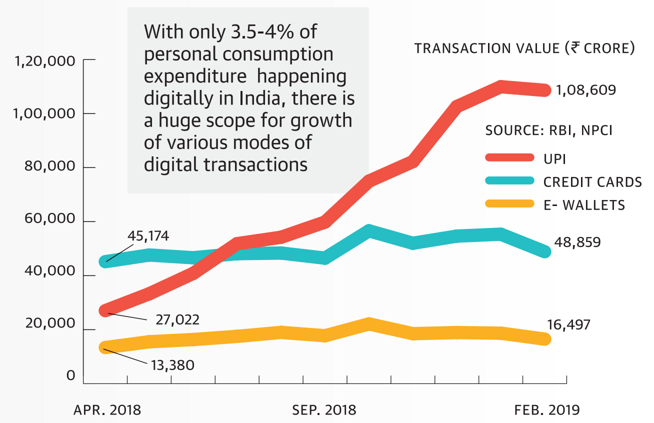
While some of the growth can be attributed to the low base, the astronomical increase in transactions has meant that UPI is now competing seriously with the incumbent forms of digital payments such as credit cards and debit cards.

For example, while credit card transactions in April 2018 (₹45,174 crore) stood at about 1.5 times the UPI transactions by value in that month, by February 2019 the value of credit card transactions (₹48,859 crore) was less than half of those done on the UPI platform.

Debit cards are far more popular than credit cards as can be seen from the fact that the value of debit card transactions stood at ₹3.05 lakh crore in February 2019. Here too, UPI is fast catching up. The value of UPI transactions was only 8.7% the quantum of debit card transactions in April 2018. This proportion climbed to 35% by February 2019.

With guns blazing

The astronomical growth in UPI transactions means it is now competing seriously with other digital payment modes such as credit cards and debit cards



1 Customers find UPI a more convenient option

2 Growth of e-wallets has not taken off much despite the fillip it received in the aftermath of demonetisation in 2016

3 Debit cards are far more popular than credit cards. However, UPI is fast catching up

As reality sinks in, PE investors turn to office realty

Increased demand, affordable rentals and easy exit options attract private equity investors

LALATENDU MISHRA

Years of stagnation in residential real estate prices and the overall thrust on low-yielding affordable housing by real estate developers have prompted private equity (PE) investors to shift focus to commercial real estate, which has become a hot favourite with them on account of demand for high quality office and retail space in the past few years.

As per Anarock Property Consultants data, commercial real estate has become the top preference for PE investors over the past four years, comprising almost 70% of the overall investment share in 2018 compared with just 33% in 2015.

In contrast, residential real estate lost its numero uno position with its share declining from 53% in 2015 to as low as 7% in 2018.

"Increased supply and demand for Grade A office space, relatively affordable rentals as compared to similar global counterparts and the new availability of exit option via REITs has boosted focus of the PE players on commercial property,"said Anuj Puri, chairman, Anarock Property Consultants.

"Retail (which is a part of commercial real estate), backed by a healthy economy and liberalisation in policies, has also shown signs of emerging as a favoured choice for PE investors," he said.

Trend reversal

According to Arvind Nandan, executive director, research, Knight Frank India, the trend has completely reversed in the last eight years.

"While in 2011, we saw 60% of PE funds being diverted to residential, the trend reversed in favour of office space in 2018 where the same amount was diverted to office," Mr. Nandan said.

Some of the other segments that are expected to gain are warehousing, co-working and student housing, analysts said.

Meanwhile, weaker residential demand due to policy overhauls, high-quoted capital values and construction delays deterred investors from the residential segment.

The residential sector has also witnessed peculiar trend of smaller-sized apartments post the RERA and the GST regime.

> **Some of the other segments that are expected to gain are warehousing, co-working and student housing**

Developers, while responding to the preference of millennials and to make properties more 'affordable,' have gone in for construction of smaller-sized apartments across key markets in the country.

The top seven cities collectively saw average apartment sizes shrink nearly 19% between 2016 and 2018, the period when both RERA (Real Estate [Regulation and Development] Act) and the GST (Goods and Services Tax) were implemented, said Mr. Puri.

Kolkata and NCR saw the maximum decline of 24% each, followed by Hyderabad with a 23% fall and MMR (Mumbai Metropolitan Region) with a 22% decline.

Chennai saw the least decline in average property sizes during the period at 12% while Bangalore saw 14% reduction during this period.

Commenting on the Mumbai market, Amit Ruparel, managing director, Ruparel Realty said, "°[In] Mumbai, there has always been demand for compact homes mainly because of the high pricing of the products. People who couldn't afford the [large]-sized houses due to higher range tend to go for smaller houses."

Meanwhile, the residential sector has also undergone size correction since 2011, with smaller-sized apartments finding favour with the customers..

GST impacts sector

The implementation of GST had also impacted the real estate sector. However, the new GST rates of 5% for premium properties and 1% for affordable homes without input tax credit (ITC) has positively impacted homebuyer sentiments, said Mr. Puri.

He said due to this, housing sales across the top seven cities had increased by 12% during Q1 2019.

"This will certainly help in maintaining forward momentum in 2019," he said.

However, for the premium segment, this move may not be a game changer, he added.

Stronger revival

"More importantly, this move sets the stage for a stronger revival for the real estate sector in the future. The reduced rate will also alleviate developers' liquidity issues to some extent.

Along with the other positives that the recent Interim Budget provided, it will create a more positive environment for all real estate stakeholders," he added.

One of the major concerns for the residential sector is the unsold inventory lying with developers.

As per Anarock data, the total unsold residential stock across the top seven cities as on Q1 2019 is approximately 6.65 lakh units of which nearly 79,800 units are ready-to-move-in (nearly 12%).

The magnitude of unsold inventory had forced many developers to cut prices sharply as well as to reduce the size of the apartments to boost demand.

For example, Mumbai-based Omkar Realtors and Developers, which had built two skyscrapers called Omkar 1973 (one more under implementation in this slum redevelopment project), had reduced the size of its apartments from 3,500 sq ft to 1,950 sq ft. Each such apartment is priced at more than ₹11 crore.

The most expensive apartment comprising an entire floor in this skyscraper is ₹100 crore, and eight such units have been sold so far.

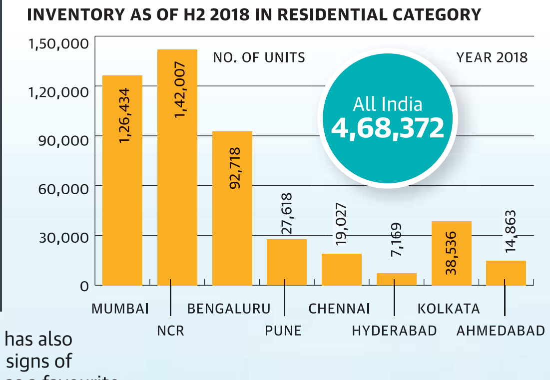
"We have decided not to hold the inventory, so we have reduced the size of the apartments to create demand and make it convenient for the buyers.

"The move has been met with encouraging response. It is better to monetise the asset rather than sitting over it," said Babulal Verma, managing director, Omkar Realtor & Developers. Many developers are doing the same to ensure liquidity and create demand among end users. These steps may see the revival of the sector in a short period.

Money is in the office

Commercial realty has become the top preference for PE investors over the past four years, comprising almost 70% of the overall investment share in 2018 against 33% in 2015

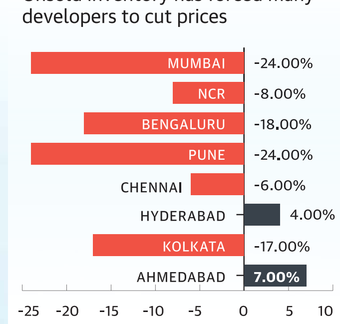
INVENTORY AS OF H2 2018 IN RESIDENTIAL CATEGORY



(SOURCE: KNIGHT FRANK INDIA)

% REDUCTION IN UNIT SIZE SINCE 2011

Unsold inventory has forced many developers to cut prices



1 Residential real estate lost its numero uno position with its share declining from 53% in 2015 to a low 7% in 2018

2 Retail has also shown signs of emerging as a favourite choice