Downtrend

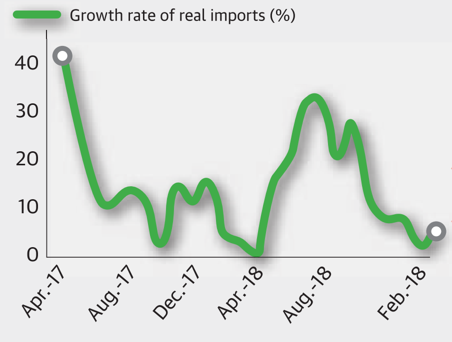
India's economy appears to have slowed down slightly in 2018-19. The growth in Gross Value Added (GVA) in agriculture has been slowing since Q1 of FY19 while the GVA of the industry and services sectors have been flatlining lately. Reasons attributed for this slowdown includes declining growth of private consumption, a tepid increase in fixed investments and muted exports

REVISED DOWNWARDS

For the financial year 2018-19, the annual GDP growth rate was revised to 7% as per the second advanced estimates against the earlier estimate of 7.2%, by the Central Statistics Office. Agriculture sector's GVA growth in FY19 was pegged at 2.7%. The implied real GDP growth in Q4 of FY19 was lower at 6.5%

FALL IN IMPORTS

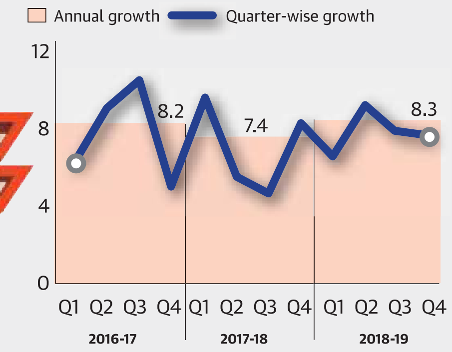
The slowing of the real growth rate of imports in the last two quarters of FY19 signalled the slowdown in GDP growth. In March 2019, imports rose by a mere 1.44% – a sign that private consumption has taken a dive in the country



*Real import is calculated by dividing nominal imports with headline Wholesale Price Index

SHRINKING CONSUMPTION

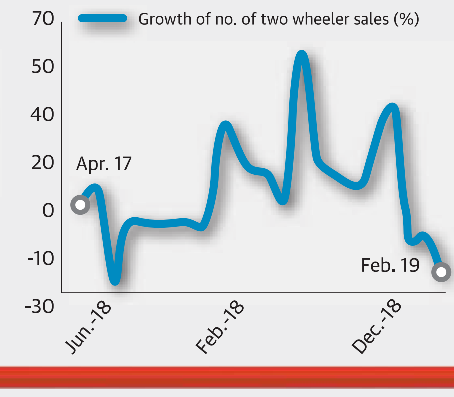
Consumers are spending lesser. In line with the slowdown in real GDP growth and imports, the private consumption expenditure growth (%) has flatlined in the last two quarters



*Growth of Q4 2018-19 is implied

SLUMPING AUTO SALES

The fall in consumption was reflected in the negative growth registered in the number of two wheelers sold since Feb. 2019. As reported widely, in April 2019, passenger vehicle sales recorded the worst monthly fall in eight years



Source: Ministry of Finance

INTERVIEW | M.M. MURUGAPPAN

Financial sector mishaps will bring discipline

Asset-liability mismatch, funds diversion in NBFCs must be looked into: Murugappa Group chairman

K.T. JAGANNATHAN
K. BHARAT KUMAR
N. ANAND

He is soft-spoken yet conveys a clear sense of command over whatever he speaks about. He has a penchant for cracking crossword puzzles. And, his clarity of thought expresses itself in a no-nonsense way. In this free-wheeling interview, ***M.M. Murugappan****, executive chairman, Murugappa Group, talks on a wide range of subjects. Edited excerpts:*

Uncertainty has been prevalent in the NBFC sector A liquidity crunch is causing missed opportunities. Is such uncertainty unprecedented?

■ Problems have remained latent. All these cannot come up overnight. These have to surface at some point of time or the other. Once it surfaces, then there is a domino effect. So, in a way, if you look at it positively, I think this will bring in discipline. And in the long term, business velocity will improve.

How are you tackling the fallout of issues that have cropped up in the financial services sector?

■ You have to be proactive and plan accordingly. Today, every stakeholder and certainly investors want to know what our risk management approach is. In financial services particularly, managing risk is as important as acquiring customers and servicing them. Therefore, we will continue in our financial services businesses to look for quality opportunities and manage our risks well. We will use technology to do so and be efficient across all aspects of business.

Credit has tightened in the marketplace. What is your take on this?

■ This phenomenon will be there. Some amount of tightening will take place and must take place. With far greater discipline and confidence that arises out of it, there could be shakeouts.

But then, companies will be looking to do quality business... as customers become disciplined and ensure that EMIs are on time ... the risk we take with two or three EMIs is gone now. We have to make accounting provisions for it. Overall, the discipline is good. It may indicate only a temporary slowdown.

Two points add to the latency ... what is missing is the long-term availability of funds particularly for infrastructure. So, when you do not have sources of long-term funds, people obviously will tap into sources of funds which are short-term in nature and at a lower cost. It will lead to these types of practices. Second is the diversion of sources of funds. Regulators should look at both these angles.

Is the Insolvency and Bankruptcy Code helping industry?

■ Conceptually, it is a good thing. Maybe, it needs to play out in the right way. Resolutions are taking time.

Is it true that post IBC, traditional industries are afraid of accessing bank funds? Are you wary of bank funding?

■ We are not wary of bank funding. We are certainly traditional and conservative. We are going to diversify our funding sources to try and match requirements. There is plenty of funding available today for a good corporate.

Now there may be a view that a certain amount of funding should be raised only through bonds. Good traditional companies will always look at their source and mix of funds in a very cautious way.

Though India has many good things to offer, our image has a negative tinge in terms of stories of financial fraud. How do you view the situation?

■ I am very positive on India. From my group's perspective, we are long-term players, in terms of history, legacy, approach and what we do... we look to the future. I am quite confident of the India growth story. We had some temporary blips caused by various things. There may be immediate concerns. But from longer-term point of view, the India story is good.

These changes that we are seeing ... in the financial sector and general reforms ... are in the right direction. All these are going to strengthen the stability of the economy. Good groups are not averse to approaching banks, and banks are eager to work with us.

> **Our alliance with ISRO will allow us to supply materials to makers of lithium-ion batteries**

Going by the happenings in the telecom and airline sectors, do you think we need to have regulated competition?

■ The important thing is that everyone should get value for money. Should unit price necessarily be cheap? Is the consumer getting value for money? People who are able to sustain alone are able to remain strong. Even the normal consumer has aspirations.

Captains of industry can try and foster this. People today are seeking value for money. They are willing to pay for services, even in the repair and maintenance space. That sector will grow.

Is the Indian economy in a robust condition or is it facing challenges?

■ Economy stability is there. India is not an unstable country. Today, we are not creating enough jobs. Where are those jobs going to come from? They have to come from a combination of organised industry, entrepreneurship, government and utilities. They have to come from across all sectors.

Where do you see job opportunities in your group firms?

■ We are expanding feet on the street. We need a lot of people in financial services. Today, people are not available for jobs. We recruit people for attitude and train them for skill.

Are you into supporting new-age firms? Are you investing in start-ups?

■ Yes, we are doing it in pockets, but not as a policy yet. We are working with some start-up firms.

We are giving them an opportunity to test their hypothesis in our group ... be it manufacturing, financial services, engineering or agriculture.

We are not fussy about where in the world we do this ... naturally, proximity to India is better. We are trying to give people opportunities. The core thing about the Murugappa Group is that we look at things from a long-term view.

Can you elaborate on your tie-up with the Indian Space Research Organisation for technology to make lithium-ion batteries?

■ The Indian Space Research Organisation has a technology to make lithium-ion batteries. It is a technology that has not scaled yet.

They have chosen many parties in India to provide the technology. The mandate of the government research organisation is basically to propagate this with many companies in the country.

We have taken this to understand the technology, rather than to make lithum-ion batteries, and look at supplying materials to the makers of such batteries.

As trade war rages, China's sway over the U.S. fades

Political parties in U.S. favour tougher stance against Beijing

NEWYORK TIMES

Fizzling out: An automotive assembly line in China, whose economic slowdown has caused its influence to ebb. ▪NYT

China usually gets its way. In Washington, on Wall Street and in corporate boardrooms, Beijing has used the country's size and promise for decades to quell opposition and reward those who helped its rise.

Those days may be coming to an end. As it struggles with President Donald Trump's trade war, a maturing and debt-laden China is discovering that it no longer has the same pull. Members of both political parties in the U.S. favour a tougher stance against Beijing.

China could still prevail on the trade war's major issues. But the conflict's length and severity reflect the growing perception that the country no longer holds the promise that once enthralled politicians and businesses in the U.S.

Many U.S. companies with large, profitable businesses in China do not want to pay expensive tariffs and worry that the U.S. is antagonising the Chinese public, said Ker Gibbs, the president of the American Chamber of Commerce in Shanghai. But many of the same businesses also chafe at the numerous restrictions that China has long maintained on foreign companies.

"We're looking at their expanding into global markets, and saying, 'Wait a minute, why can't we do that here?'" Gibbs said.

China's economic slowdown, which could hinder growth globally, is a major reason its influence has ebbed. But there are other factors. The country's heavy debts limit its options.

If it retaliates against the U.S. sharply by devaluing its currency or shutting factories crucial to global supply chains, the moves could ricochet and hurt its own newfound wealth. Foreign businesses have found it less appealing to make or sell their products in China over the last several years because of heavy restrictions on foreign businesses, stronger local competitors and rising costs. Mr. Trump's tariffs last year gave many businesses a final reason to look elsewhere.

'Anywhere but China'

Call it the ABC supply chain, as in "anywhere but China." On Wednesday, Kelly A. Kramer, the chief financial officer of Cisco, the big telecom equipment supplier, told investors that the company had "greatly, greatly reduced" its exposure to China because of the tariffs.

Morey, a company near Chicago that makes rugged electronics for bulldozers and other outdoor equipment, reluctantly paid more for printed circuit boards made in China after Mr. Trump imposed 10% tariffs on $200 billion a year in Chinese imports.

With those tariffs now rising to 25%, Morey has begun talking to suppliers in Taiwan, South Korea and Singapore.

China has long used its tremendous size and growth potential as both carrot and stick. Companies that played by its rules could gain access to a market of more than 1 billion people who were becoming increasingly affluent. Companies that complained could be left out.

It worked. GM and other companies caved in to demands like being forced to take on local joint venture partners, knowing that they were training future competitors. General Electric sold one complete diesel locomotive from Erie, Pennsylvania, to China, then taught the Chinese to build their own.

China remains vital to many businesses, but the dynamic has shifted. Beijing has fewer ways to strike back against the U.S. now. Its tremendous success in nurturing its homegrown industries, which has helped China's economy rise up the value chain, has reduced its imports of U.S. goods.

"China has been so effective at squeezing manufactured imports out of its market that it has really limited its options to retaliate," said Brad Setser, a Treasury official in the Obama administration who is now an economist at the Council on Foreign Relations.

The dilemma for China is that the longer the trade war lasts, the more companies may decide to invest elsewhere. For now, domestic politics seem more important in China, with the leadership and the public reacting angrily to what is portrayed as peremptory American demands.

How Mahindra is making the table grapes business juicier in India

While building for itself a $100-million empire in the fruits business, M&M has also helped raise the average farmer's output from 4 tonnes per acre to 12 tonnes

LALATENDU MISHRA

In the firm lands of Nashik, Sangli and Baramati, a 'grape revolution' is gaining momentum. Once backed by traders, the grapes business in India is now being spearheaded by Mahindra & Mahindra, which has quietly built a $100-million fruits business from Asia to Europe and North America, in a period of 15 years.

Mahindra may be manufacturing small passenger aircraft or building the over ₹15 crore fastest-ever electric car of the world to showcase its technological capabilities, but its commitment to farmers to increase their income is noteworthy.

In 15 years, it has expanded grape cultivation areas in the country, after convincing farmers to switch to grape cultivation, which provides more yield than other crops such as sugarcane or rice.

When the company forayed into the grape business as part of its strategy to diversify from tractors, it began with exporting a few containers. But now it has achieved a volume of several hundred containers. In 2017, India had exported 888 containers, but in 2018 this came down to 535 containers. In this, Mahindra has had the lion's share.

Having worked with farmers and helping them with technical know-how as well as better market access, Mahindra is also ensuring that the farmers get the best price from the international market. It is also inviting international experts at its own cost to advise farmers on grapes cultivation in accordance with international food safety norms. In the process, the company is building a solid grape ecosystem that could rival Egypt and other leading grape cultivating nations.

Profitable partnership

"The purpose of our company is to impact communities and help them to rise and develop business models which are inclusive and which can help our ecosystem's players to benefit, so that all have a win-win situation," said Ashok Sharma, president, Mahindra Agri Solutions, a 100% subsidiary of Mahindra & Mahindra. When Mahindra ventured into this business, farmers did not have knowledge about cultivating the right variety of grapes for the international market. Though Europe was very keen to buy from India, it had very stringent norms on chemical residue.

A taste for profit: Farmers arranging plucked grapes for weighing near Nashik, which is known as the 'grape capital of India'. ▪VEERU KADAM

So the company started training the farmers on how to manage that and it put its people on the ground as well as deployed agronomists to go to the fields and explain concepts. At that time, while other companies were just buying from farmers and trading in grapes, Mahindra invested in building capability and skills of farmers.

Now, the company is working with about 1,400 farmers, helping them with modern practices. Their output too has grown substantially.

"Ten years ago, a farmer used to get 4 tonnes per acre. Now they get about 12 tonnes. The output has increased due to good agricultural practices," Mr. Sharma said.

In the past, farmers had access only to the Indian market, where prices were quite subdued. They used to get ₹25 to ₹30 per kg. But now, with exports, they sometimes get anywhere from ₹70 to ₹100, depending on the variety of grapes and the market. "This is a great example of how private enterprise, farmers and the government can work together to create a very sustainable export business model; this is something badly required for our country today," Mr. Sharma added.

Dependence on Europe

In 2011-12, when Mahindra realised that Indian exporters were highly dependent on Europe, where there is restriction on consumption and no certainty in pricing, it started working towards developing new markets. The company then forayed into Canada, Malaysia and China, for which it had to develop new varieties in new geographies.

"We moved outside Nashik, to newer areas like Baramati and Sangli regions where new varieties could be grown," Mr. Sharma said. A few weeks ago, Baramati shipped 100 containers. Mahindra has managed to double the output as farmers are switching to grapes from other crop.

Bajirao Shinde, a grape farmer from Nashik said his family had benefited by moving to grape farming and their association with Mahindra had been rewarding.

"While my brother manages the grape farming business, I stay in the farm and work closely with workers. We are increasing the land under grape cultivation," Mr. Shinde said.

Mahindra's Saboro grapes command a 10-15% premium in China.

To cater to big global retailers like Edeka in Germany, which prefer to buy directly from farmers, the company has set up a packing house in Nashik, which sources grapes directly from the farmers and packages them in accordance with world-class standards for export. The company declares to buyers that it follows fair trade practices – no child labour, payment of fair wages, providing proper support to employees and not indulging in exploitation of any kind, besides employing good agricultural practices.

This helps as consumers wouldn't mind paying a half or 1 Euro more, the company says. Now, Mahindra is preparing Indian farmers for the next level.

"We are using block chain and perhaps we are the first company in the world to use it for fruits. Now, through blockchain, a customer in Europe or China, can know who the farmer is and when the grape was harvested, besides other details," Mr. Sharma said.

Expanding markets

Last year, the company acquired Netherlands' Origin Fruit Direct, a €60-million company having deep roots in Europe. Through this venture, Mahindra has gained access to markets like South Africa, Peru and Chile, taking its supply chain beyond India. "Today, we are roughly a $100 million company in fruits, including grapes, and that makes us the largest Indian fruit company," Mr. Sharma added.