

GURU SPEAK



THE BUOYANCY FACTOR

The financial sector in India has somewhat learnt to live with fiscal challenges and is tackling this new norm of uncertainty, rather well



ANAND SINHA, deputy governor, Reserve Bank of India

The presence of uncertainties motivates people to travel that extra distance to tame uncertainties and emerge successful. In fact, it is how the uncertainties are managed, that differentiates the successful ones from others.



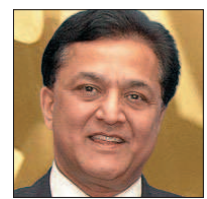
DR PARTHASARATHI SHOME, chairman, Expert Committee on General Anti-Avoidance Rules (GAAR), GOI

Major Indian companies have gone abroad or taken capital to invest abroad as it's perceived as a real constraint in the country. However, if you really look at robust companies that are small, it takes a lot of effort for them to lose off the constraints and list abroad and I think that is the next phase we should go into.



V K SHARMA, executive director, Reserve Bank of India

It is very important to have an underlying happening government securities market. Unless you have a very liquid government securities market, a very well defined yield curve, you can't risk your asset of that curve at all.



DR RANA KAPOOR, founder, managing director and CEO, Yes Bank

There are distinctive pockets of sunrise growth still emerging in our country and banks, therefore, need to be versatile by changing gears to focus on building specialised growth in their strategies and not look at only plain vanilla lending.



RASHESH SHAH, chairman and CEO, Edelweiss Group

Get the banks to participate in the bond market because this is where a large part of the household sharing is getting captured in the banking system.



AKSHAYA MOONDR, chief financial officer, IDEA Cellular

When you see growth all around it is easy to make wrong investments, so one needs to be careful. In 2008, the speed of execution was of paramount importance and accuracy was a trade-off. However, today the speed of execution is not the most important factor but choosing the right investment is.



D MUTHUKUMARAN, head, corporate finance group, Aditya Birla Group

There is money available for good projects. What matters is the overall scheme of things. India is a land of 1,000 zero watt bulbs, so you need to have all of them glowing at the same time.



B MADHAV REDDY, managing director and CEO, The Calcutta Stock Exchange Ltd

From the capital market point of view, the story of India is still alive with strong savings to propel investment and demand.



HEMENDRA ARAN, CEO and founder, Aranca

You cannot get away from volatility, you just have to model your business so that you can hedge whenever required and keep exposures open when it seems acceptable. Today, it is very important for a CFO to make certain choices because there are limited resources in terms of money and people. Hence, it boils down to decision making on how to put them to best use, given the heightened risk situation.

In today's challenging economic condition, Indian business leaders are at crossroads. While they hope to take advantage of the growing local demand-led markets, uncertainties in regulations and policies, cost pressures, increasing competition from other low-cost destinations and macro-economic environments, are keeping them tied down. In addition, the overall global slowdown is hampering the investment flow in this developing market. The second edition of the Economic Times Financial Management Summit, which was held in Mumbai recently, tried to address the issues that the sector is facing today. The summit provided a platform for many finance leaders to share insights, debates and outline key priorities, riding on the theme of managing uncertainties and leveraging opportunities.

Speaking about how one can create some optimism and see opportunities in adversities, the summit chairperson, Dr Rana Kapoor, founder, managing director and CEO, Yes Bank said, "The new uncertainty has become so persistent that all we can say is that, in these turbulent times, the only certainty is uncertainty. At such times, the principles of VUCA followed by the US Army hold true. VUCA stands for volatility, uncertainty, complexity and ambiguity, an acronym used by the army to provide a perspective that there can be challenges even in peaceful times," he added. He further mentioned that the financial sector in India has learnt to live with these challenges and is tackling this new norm of uncertainty, rather well. "While on the domestic front, there are growing concerns of the overall GDP slowdown, inflation has still not reached comfortable levels as warranted



L to R - Hemendra Aran; Bodhisatva Ganguli, deputy executive editor, The Economic Times; Anand Sinha; Dr Rana Kapoor

by policies, the RBI at least in our assessment, has been extremely prudent in ensuring that we are not over leveraging the monetary levers, the policy levers available to the RBI are fairly well tackling the dual concerns of growth and inflation. I think the RBI has articulated quite distinctly and frequently, that the solution lies in de-bottlenecking the supply side constraints faced by the Indian economy through expeditious policy intervention and more prudential fiscal management," he explained.

Similarly, Anand Sinha, deputy governor, Reserve Bank of India, pointed out that apart from the miseries that the global crisis brought with it, there has been a positive dimension to it as well, that is the intellectual learning of handling risks with a paradigm shift also in the notion of monetary policy and

financial stability.

Aranca, the knowledge partner for the summit, conducted The Economic Times - Aranca 'India CFO Survey' 2012 across ET 500 list of companies, where senior CFOs were asked

on the challenges that corporate India is facing. The company also released a white paper in this summit. Hemendra Aran, CEO and founder, Aranca, said, "There was a delay in decision making at the corporate level, at the CXO level and at the mid and the low level in the 2007-08 time frame, however today, people are used to making decisions while uncertainties have significantly increased. That mindset is very encouraging where people are realising that no matter what; they have to take decisions at the macro-level or the micro-level." Sharing the insights of the survey, he added, "The total mar-

ket capitalisation of companies that have participated in the survey was around Rs 6,00,000 crores belonging to diverse sectors, including banking; technology; manufacturing; FMCG; telecom; construction; among others. You cannot get away from volatility, you just have to model your business so that you can hedge whenever required and keep exposures open when it seems acceptable. Today, it is very important for a CFO to make certain choices because there are limited resources in terms of money and people. Hence, it boils down to decision making on how to put them to best use, given the heightened risk situation," he shared.

In his welcome address, Bodhisatva Ganguli, deputy executive editor, The Economic Times, said that the role of the central bank had become increasingly important in the world economy. He elaborated, "In the wake of the policy paralysis in different parts of the world, be it the US or the EU, it is the central bank which has been doing the heavy lifting. The chances of the break-up of the euro-zone has diminished somewhat with the politicians in Europe getting their act together very similar to those in our country," he said. For a long time it was the ECB which had been preventing a collapse in Europe through various innovative measures, which are controversial - unlimited bond buying. Similarly, in the US because of the political grid-lock, the measures introduced by the US Federal Reserve have helped in damage control.

The broader point remains that central banks have become important because coincidentally, India is not the only place to be affected by the political grid-lock and there are other places that are affected by the same.

'CFO HELPS CONTRIBUTE TO THE REPUTATION OF THE COMPANY'

Session I: Key priorities when all indicators point southwards

The first session started with how the current global economic scenario is unpredictable, thus impacting Indian markets. "To attract investors, India has to tackle policy paralysis and corporate governance. Corruption is a big problem and regulation globally, is getting stricter about these foreign corrupt practices," avered Punita Sinha. The best route out, is that Indian companies should continue to introduce more disclosures and this is possible if the CFOs and the investors work together. Elaborating on how CFOs can deal with the current risks, B R Jaju explained, "This crisis has left three major challenges for the CFO - managing earning volatility; business returns including EBIDTA Margin and RoI and earnings per share. The CFO is the nerve centre who can ensure rightful reporting that is well on time, comprehended by investors and is relevant." Moving onto broader questions of financing, from the capital market point of view, the story of India is still alive with strong savings to propel invest-



L to R - B R Jaju, director and CFO, Welspun Corp Ltd; Punita K Sinha, managing partner, Pacific Paradigm Advisors; Dr Ashima Goyal, professor, Indira Gandhi Institute for Development Research (IGDIR) (moderator); B Madhav Reddy; Jayant Manmadkar, chief financial officer, Mahindra Lifespaces

ment and demand, opined B Madhav Reddy. He added, "From the demographics perspective, India has only two per cent of its population in capital markets as compared to 35 per cent in the US and 15 per cent in China and this needs to be improved. On the learning that the slowdown has taught, Jayant Manmadkar felt, "The infrastructure sector importantly works on perception and corporate governance. Reliability of the promoter plays a big role in

changing the perception, resulting in reduction of the risk premium that is put for the purpose of cost of lending." Besides, in terms of financing issues, if the CFO helps contribute to the brand or the reputation of the company, the company will never face any problem in getting loans, pointed out Ashima Goyal. "It is really the quality of processes the company follows, the reputation it builds and the standards it holds to," she concluded.

'THERE IS ALREADY A LOT OF FINANCING THAT IS HAPPENING IN INDIA'

Session II: Functions for financing growth

This session focused on companies looking at alternate avenues of financing in these times of uncertainty. Dr Shubhada Rao said, "These are challenging times and they provide opportunities to the CFOs to look forward in terms of growth prospects. Emerging markets and the developing economies such as ours, suddenly seem to be suffering larger than anticipated. Quite clearly, this has to do with how we see the real economy panning out and more importantly, how do we build from this current low growth phase going to the high growth phase." The canvas of financing options has increased in India in the last 15 years. Today, options like capital markets equity, private equity, early stage equity, venture capital finance, are becoming deeper in the market among others. "There is already a lot of financing that is happening in India through kick-starting new ideas that is happening through two mechanisms - early stage venture capitalist funds who are also investing in idea levels and the angel networks which are coming together as wealth has gotten created," said Gaurav Deepak. It is important to be clear about objectives of funding. Sometimes you look at funding where availability is an issue and sometimes availability isn't an issue and you try to optimise costs. These two objectives lead you to different



L to R - Gaurav Deepak, co-founder and managing director, Aventus Capital; Gopal Mahadevan, chief financial officer, Thermax; Dr Shubhada Rao, president and chief economist, Yes Bank (moderator); Akshaya Moondra

results. "Sometimes, we have to look beyond well-laid down principles and see if there is a case for doing something differently. For instance, in our company we divested our towers to a separate entity - this was an unlisted entity under a listed entity and we actually got private equity investments there. One possibility is that private equity has become a major source of investment and in future, private equity is going to be big," avered Akshaya Moondra. Similarly, Gopal Mahadevan added, "Managing risks is where one could be in a safe quadrant but there could be opportunities where one can ride them with the position that one's organisation is and take advantage of the market situation which possibly the competition cannot."

'FOREX RISKS ARE NOT MANAGED FOR THE PURPOSE OF MAKING MONEY'

Session III: Managing forex in volatile money markets

The third session focused on innovation in financial management. "We must try to protect a particular forex rate during the course of the year that was already budgeted. We have a dynamic policy and we intervene whenever we think it is necessary using instruments like plain vanilla forward cover to options," said Ramesh Swaminathan. Jamal Mecklai said that it is not possible to have a fully convertible currency, unless you have a money market yield curve so there is no arbitrage. "To have a money market yield curve, the nationalised banks need to trade their assets and the RBI may have to push them to do so. Since they have a 24 per cent SLR they are compelled to hold these assets, the RBI cannot on one side ask them to hold their assets and on the other ask them to trade," he added. Regunathan Srinivasan felt, "When we want to fund our expansion plan, we go in for a foreign loan on a fully covered basis." According to P Mukherjee, volatility in rupee will last. However, what is more worrying for corporates particularly, is that there are deceptive periods in between when you have remarkable stability in rupee and that is when you get lulled into a sense of security and bother about hedging. Vipul Chandra pointed out, "To reach towards full capital account convertibility, you need to have a basic economic strength, which India is still in the process of reaching. The right time of having full capital account convertibility will take a while, yet the regulators are taking measures in that direction". Finally, forex risks are not managed for the purpose of making money. "You are managing this risk because it protects your balance sheet. The forex risk on your balance sheet and P/L needs to be hedged, in a manner which is most efficient for you," concluded Arvind Narayanan.



L to R - Arvind Narayanan, head, sales, treasury and markets, DBS India; P Mukherjee, president, treasury and international banking, Axis Bank; Jamal Mecklai, chief executive officer, Mecklai Financial (moderator); Vipul Chandra, managing director and head, corporate sales and structuring, Citi South Asia; Ramesh Swaminathan, president, finance and planning, CFO, Lupin Ltd; Regunathan Srinivasan, VP, finance and corporate processes, BASF South Asia

'WHEN CONFIDENCE IS LOW, INVESTORS WANT TO BE AS LIQUID AND HOLD BACK AS MUCH CASH AS POSSIBLE'

Session IV: Solving the liquidity puzzle: Going beyond policy actions

Sriram Ramakrishnan kick-started the final session by saying that since the last six months, there are talks about how liquidity is very tight and corporates are getting squeezed with little or no money for investment. "Whether we are really facing a liquidity problem or is it a confidence problem?" he asks. Dr Parthasarathi Shome explained that there is a lack of liquidity but the source of that lack is also important. "We always think that the financial and banking systems have some constraints on liquidity but there is also the equity market, floating of shares, going abroad and listing of securities, from a company's point of view. So, on one hand we have some restrictions and some kind of reticence because we tend to restrict it. Once we have some flexibility from other sources, we should not have this sense of lack of liquidity that we face today," he added. When confidence is low, investors want to be as liquid and hold back as much cash as possible. Equity is



L to R - Rashesh Shah; V K Sharma; Sriram Ramakrishnan, resident editor, The Economic Times (moderator); Dr Parthasarathi Shome; D Muthukumar

long term, so when confidence about growth prospects of India were very low, the ability to raise prospects in India or outside went down. "The other problem is a large part of liquidity that comes in through the banking sector. World over, the banking sector is pro-cyclical. Ideally, it is not just the equity market we have but a robust Indian bond market which can access global and Indian capital and can act as a good counter balance and an additional source of providing liquidity for corporates, in a counter cyclical way," informed Shah. Owing to liquidity, corporations are slow-

ing down, in terms of projects. "We have also seen a credit off-take not coming through and it looks like the cause is due to the confidence crisis and as this works through the economy, you will see a liquidity crisis manifesting itself at the far end of the cycle," explained D Muthukumar. "We have now consciously followed a monetary system stance that has been successful. Banks are always deficit and they come to the RBI to borrow money. This is better than allowing them to deposit money with us which is a reverse repo," concluded V K Sharma.