

No rate cut, demonetisation dampen India Inc plans

BS REPORTERS
Mumbai, 7 December

The Indian corporate sector, looking forward to a rate cut on Wednesday, is facing a double whammy of high interest rates and falling sales due to demonetisation. Chief executive officers (CEOs) said they would now wait to take investment decisions till the economy improves, by April next year.

"The credit policy comes in the most unusual of circumstances and the Reserve Bank of India's decision to keep rates unchanged reflects all the current uncertainties. The US Fed's pending decision and the Opec (Organization of the Petroleum Exporting Countries) meeting

seems to have weighed in heavily, beside the unprecedented effect of demonetisation. A rate cut, however, is not too far off, as it becomes increasingly unavoidable with inflation being contained and a lot of cash within the banking system. I would expect it to happen sooner than later," said Harsh Goenka, chairman of RPG Enterprises.

Harsh Mariwala, chairman of consumer products maker Marico, said a rate cut would have acted as a balancing factor at a time when consumer and retail activity has been impacted due to demonetisation. "It will now be a slow process of recovery as remonetisation pans out," he said.

The demonetisation of Rs500

and Rs1,000 notes came at a wrong time for the private sector, which wasn't investing in new projects anyway. Falling sales since demonetisation in the past one month has alarmed CEOs, who want to save cash till the economy recovers. The real estate, advertising and consumer durables sectors, and two-wheelers, cars and tractor sales are worst hit.

Rakesh Biyani, joint managing director of Future Retail, said as so much money had gone out of the system, it had become a worrying factor. "I hope the government would give some stimulus to boost demand," he said.

CEOs of real estate companies, who were expecting a rate cut of 25 to 50 basis points, are a disappointed lot. "It is a disappointment for all the industries including real estate. For developers to cut prices, their cost of funding should come down first," said Rajeev Talwar, CEO at DLF, the country's largest developer. Talwar said RBI's decision (of not cutting rates) will

accentuate the liquidity conditions of property developers, barring a few large ones.

"Most of the small- and medium-sized companies have already asked for restructuring of their loans," he said.

CEOs said they would now wait to take investment decisions till the economy improves by April 2017



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