

A Boon Period for India Inc.

The global financial crisis runs deep and is highly complex but from an economic point of view, India has been spared from being plunged into recession. Though our growth has slowed down, our economy is still expected, according to conservative estimates, to grow at around 6.5%.

The term 'Recession' has entered into Indian boardrooms because

1. Firms cannot afford to be complacent
2. They can exploit the aura of a recession to take tough cost-cutting decisions that they would not otherwise have had the moral strength to make in good times.
3. It is time for India Inc., to rise above the situation and see this as a fantastic opportunity to take the reins of global corporate leadership.

In keeping with the above possibilities here are a few things that Indian companies must keep in mind:-

1. Cash is going to be an important lifeline. However the sentiment of fear has prompted banks to get more nervous and cling on to the cash. Therefore given this new reality, flushing out cash from working capital and directing it towards planned projects, based on priority, will have to be considered as the route to liquidity. Hence prudent cost cutting would be the order of the day in order to make good the deficiency in liquidity. Highly capital intensive projects should give way to

those projects which are highly essential in the medium to long run.

2. We will also have to focus on customer segments who pay quicker and where the risk of delayed payments and insolvency are low. Unfortunately, in the race for top-line growth over the last several years, we have lured ourselves into a policy of supply now and collect later.

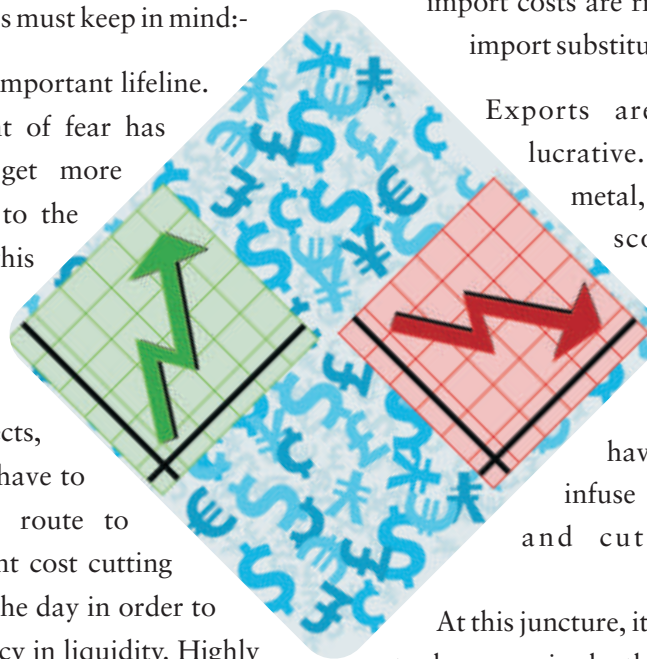
In times like these, it is quite comforting to know that we are being guided by a world-class macro-economic management team in the form of the RBI.

A lot has changed on the forex front.

1. The dollar denominated debt on many balance sheets could get expensive and hence will need to be adequately hedged.
2. Naturally, with the reversal of forex trends, import costs are rising and it is time to look at import substitution.

Exports are becoming much more lucrative. With lower commodity, metal, and oil prices — there is great scope to reduce costs of products across several sectors. In order to exploit the opportunity that such times throw up, industry will have to increase productivity – infuse efficiency into its processes and cut expenses judiciously.

At this juncture, it is most crucial for companies to have an in-depth understanding of how the financial crisis can affect their business. Businesses





There is great scope to reduce costs of products across several sectors

need to run “worst-case” and “what-if” scenarios and ascertain alternative strategies to deal with them.

For leaders to stay positive in this environment, good communication and organizational flexibility is essential. While applying short-term fixes, it is also important to keep an eye on the medium and long-term so that we don't end up destroying tomorrow's value today.

There is also an unprecedented opportunity for promoters to increase their shareholding. If they have the cash, there is no better occasion than now to take advantage of undervalued stock prices. This would restore confidence as well as spur their sagging stock prices.

Difficult circumstances like these need innovation and out of the box thinking. While most companies are cutting back on R&D and marketing budgets, those who can sustain such investments are most

likely to reap long term dividends. Many projects are seeing a reduction in costs with factors like cement and steel taking a dip. Capital equipment is also seeing a glut. Therefore, it is a great time to invest for the future if one has the money.

A lot of companies still have non-core non-performing assets. Even if prices are down, it is a good idea to sell these at a discount and raise the cash. There are assets in Europe and America that are available cheap. This is a great time for opportunistic mergers and acquisitions.

Talent retention is going to become smoother. Attrition rates are already dropping. This is also an opportunity to get high quality world talent for sectors where Indian expertise is still not mature. There is no longer a large difference in salary scales between the US and India.

Thus, to sum it up, the imminent need is to get back to basics and do what we need to do.