Publication: Business World

Page no: 73	Date: 06 January, 2018

WHAT TO EXPECT | FINANCIAL SERVICES

AJAY SRINIVASAN

A DIFFERENT PITCH TO BAT ON

AS THE HEAD OF A company that has a number of diverse financial services businesses under its umbrella, I realise one needs to have a mix of optimism and pragmatism when looking into the future. By nature, I am an optimist and I believe that the future is going to be better. I am also a strong believer in the India growth story. In fact, I think if you asked anyone when they would have liked to be living on earth, this is probably the time most people would choose. While there are several areas that are still work-in-progress and need attention, generally speaking humanity is in a great place today.

First, though, let's talk about 2017. The year was good for the financial services industry. Mutual fund flows were very strong in 2017, with net flows well over Rs 4 lakh crore, boosted by strong flows into equity funds. Systematic investment plans did very well with inflows of well over Rs 50,000 crore. Life insurance premiums grew strongly and NBFCs had another strong year. Health insurance grew rapidly. Several PE funds got exits through IPOs. The IPO market boomed. The Nifty has risen by about 25 per cent as I write.

While 2017 witnessed the implementation of various reforms, we would witness the benefit of these in 2018 and beyond. Some reforms like GST will lead to greater formalisation of the economy and widening the tax base. The impact of demonetisation and other moves has been that financialisation of savings has begun. The Real Estate Regulation Act will reform the real estate sector considerably. The move to recapitalise the banks and the introduction of all the reforms related to resolution of stressed assets will help the sector immensely. With the growth of mutual funds, life insurance, pensions and NBFCs, there are now several alternatives available to corporates to raise money.

While 2017 was a good batting wicket therefore in many ways, 2018 will not be quite the same. Inflation seems to be slightly higher, even though it might not get to levels we have seen in the past. Interest rates don't seem like they will come down from here. And abundant liquidity — the friend of so many asset classes — seems likely to be less going forward. Global growth is on the up, along with increased populism. On the back of a strong growth in stock markets in 2017, inevitably 2018 will have a hard time trying to match expectations.

> I see 2018 as a third day wicket in a Test match — not the plaid batting wicket of the first two days

Our internal forecast is that the rupee will move in a narrow band at the current level. This is good news for foreign investors who have been investing into India. Corporate earnings would start to look up starting H2 of FY 18. We expect the Nifty50 companies to close FY18 with an earnings growth of 10 per cent paving the way for a better FY19 at 19 per cent. Most importantly, the earnings would be more broad-based as compared to previous years. From a macro perspective, revival of consumption could take GDP growth into the seven per cent range. Capital investment still seems to be a year or so away.

The challenges to our fiscal could arise from oil price increases, even though we believe any rise is unlikely to be sustained. We should also be watching the engineered slowdown of GDP growth in China as it still contributes over a third to incremental world GDP growth.

To use a cricketing analogy, I see 2018 as a third day wicket in a Test match — not the plaid batting wicket of the first two days like we have seen thus far, but with some turns and twists that require players to be a bit more cautious. BW

The author is CEO, Aditya Birla Capital Limited

Photograph by Subhabrata Das