India's Macro Economic Outlook: A CFO's Viewpoint

2024 could be an unpredictable year for the Indian economy. Being an election year, the re-election of the current government would provide a further push to the populist decision to advance the economic growth of the country and move towards the vision of a 5 trillion-dollar economy by 2027-28[1]. Increased capital expenditure and divestment of public enterprises will also continue to be a top priority of this government.

On the other hand, if a new government gets the voters' mandate, it might result in a brief pause to the economy before the new government brings in their own vision of economic development, which is quite normal in this type of scenario. We could see more populist decisions in that case, where the focus could be on providing more subsidies (free electricity, free inputs to farmers etc.).

Besides these uncertainties, ongoing geopolitical issues such as conflicts between nations, increasing climate risk, strict trade barriers, etc. have disrupted supply chains and oil prices, leading to an increase in input prices. However, until now, India has managed to navigate the situation with its strong diplomatic ties. The input prices have been kept under control by maintaining close relationships with USA, Russia, the Middle East, and other major oil suppliers.

1. As announced by the Finance Minister

Increasing Investor Confidence in India

Irrespective of the factors mentioned above, India is poised to be one of the fastest growing economies in the world with an expected growth rate of 6.3%[2] whereas other major economies are on the brink of a recession. Japan and the United Kingdom have already slipped into technical recessions. Germany, another major economy, is also in troubled waters. The global economy is currently anticipated to grow at an average of 3%[3].

A crucial aspect behind the confidence in India's robust growth rate is the launch of several key initiatives by the Government of India (GOI). For example, Make in India, which presently covers almost 27 sectors, has attracted high inflows of FDI, especially in sectors such as manufacturing, design, and innovation. It is evident that India is going to be in a strong position to capitalize on investment which could make it a favorable investment destination for both FDI and FII.

India is relying on such an increase in FDI and FII along with a decrease in the trade deficit for improving the capital account deficit. The current account deficit for the second quarter of Financial Year 2023-24 declined to just 1%. Moreover, the fiscal account deficit, which is currently 5.1%[4] of the GDP, is targeted to be reduced to 4.5% by 2026.

CFOs should keep an eye on new funding opportunities from foreign investors. There could be several strategic investors now available to Indian companies who would not just bring in capital but also technical know-how. CFOs also have an opportunity to drive some of these activities which may involve M&As. CFOs that are facing high inflows of FDI may also seek a revision in their capital structure of debt and equity to optimize financing costs.

The New FDI - First Develop India

Capital expenditure, budgeted at INR 11,11,111 crore or 3.4% of the GDP, will focus on infrastructure development along with a dedicated economic corridor for railways, under the PM Gati Shakti scheme for efficient and cheaper movement. This will boost investment by private players and foreign players, which is possible through various bilateral treaties that the government has been able to facilitate. These programs will have a multiplier impact on the economy in the form of growth and employment generation over the coming years.

A simultaneous increase in private consumption (almost 58.4%[5] of the total GDP in the last year) in the various sectors such as electronic goods, drugs and pharmaceuticals, and engineering goods has also contributed to the GDP growth.

The PM Gati Shakti master plan will provide multimodal connectivity infrastructure to various economic zones. The plan is focused on improving connectivity through railways, roadways, and other means throughout India. The National Logistics Policy, which is framed under this master plan, is implemented with a vision to provide a seamless logistics network all across India through integrated, eco-friendly, and cost-effective measures. It is expected to help reduce the current time-taken for transportation while lowering petroleum consumption.

Dedicated railway freight corridors will support the quick and cheap movement of goods and will drive growth for a few target sectors such as energy, minerals, and cement. The government's push to build more airports in Tier 2 and 3 cities while developing/privatizing ports will help the industry effectively manage capacities.

2. As per The Word Economic Outlook Update by the International Monetary Fund
3. As per The Word Economic Outlook Update by the International Monetary Fund
4. As presented by the Finance Minister in the Interim Union Budget 2024-25
5. As per the Economic Survey 2022-23 by the Government of India

The Indian government is aiming to build a robust Digital India through the emergence of newer technologies such as Artificial Intelligence (AI), Machine Learning (ML), software development, and other modernization and technical advancements, which will support various sectors such as finance, healthcare, manufacturing, agriculture, etc. by increasing productivity while fostering innovation.

Almost 6.25 lakh IT professionals are expected to be reskilled under the Digital India program. This will provide a huge benefit as the industry will have access to trained resources for ready deployment. The scaling up of technology and innovation will support in the growth of other sectors such as renewable energy, space, IT etc.

To boost the development of the start-up ecosystem, the government has implemented various schemes to improve the ease of doing business, reduce compliances, and disburse various tax sops.

These measures will play an important part facilitating inclusive and holistic growth.

The services sector has also shown remarkable resilience amid uncertainties, which is expected to further boost the Indian economy. A growth of 4.2% has been recorded over the last year with a major increase in services related to software, business, and travel.

CFOs of start-ups can take advantage of these benefits given by the government as most of the benefits pertain to the finance function in some or the other way. CFOs should guide the Board and the founders on identifying such benefits and how it fits into their overall business plan. They could also plan to take advantage of the viability gap funding scheme for start-ups which are based in Tier 2 and Tier 3 cities.

The pharmaceutical sector could witness high demand in the Indian market, and CFOs should keep an eye on this segment. They can support the sales or production team with research and analysis of market data to capitalize on the increasing demand.

Due to the government's new policies on logistics and its focus on improving infrastructure, CFOs should also consider how their organizations can reap the benefit of lowered logistics costs to become competitive at the global stage.

The aviation sector may witness higher footfall in smaller cities. This could be an opportunity for businesses to increase their operations and investments in Tier 2/Tier 3 cities. The CFOs of port-related businesses can further capitalize on government schemes by investing in the development and maintenance of ports as cargo movement is expected to grow in double digits.

In terms of digital initiatives, CFOs should look out for the disruptive impact that new-age technologies will have on their business. They should push for technology upgrades in their organization to make sure the business continues to stay relevant in the industry.

MSME – The Newest Pillar of the Indian Economy

MSMEs are playing a crucial role in the socio-economic growth of the country. Their contribution to the GDP is almost one-third of the total GDP. MSMEs contribute to the economy through employment generation, most prominently in rural areas. MSMEs majorly face challenges in terms of funding and competing with global and large organizations that can sustain themselves even amidst tough market conditions and lower liquidity.

The government has placed a special emphasis on the development of the MSME sector by providing them with large credit lines, guarantees from the government for repayment of loans, the creation of a special fund for equity infusion in MSME entities, revised criteria to include more entities under the MSME umbrella, mandates for domestic tenders for procurement up to INR 200 crores, and much more.

CFOs can capitalize on the funding programs run by the government to manage their working capital situation. Furthermore, various provisions in the MSME Act and Income Tax Act will help them realize the funds against their sales on a timely basis, which will improve the cash cycle and increase margins.

CFOs can also enhance business and revenues for their entities by obtaining benefits from the PLI schemes where they could receive benefits from higher production level. In short, CFOs of MSMEs are particularly well placed to expand their exports and operations.

Monetary Measures

The government is also working very closely with the Reserve Bank of India (RBI) to keep the inflation rate around the target of approximately 4% on a durable basis[6]. The Monetary Policy Committee is focusing more on inflation rather than growth currently and is engaged in keeping the policies disinflationary with the policy Repo Rate emerging as a favored tool. The RBI has also placed emphasis on good compliance and governance frameworks, which will lead to improved asset quality of banks and Non-Banking Financial Companies (NBFCs).

The RBI is willing to take drastic steps to keep the sector compliant with the provisions. The stern steps taken by RBI such as cancelling of banking licenses and superseding the Board of Directors have provided a positive impact on the economy over a long-term. Financial institutions and NBFCs now have strong books, because of the stringent Non-Performing Assets (NPA) norms laid by the RBI in the past. The RBI is playing a key role in making the Indian economy stronger and safer from any financial shock.

The RBI's continued focus on keeping inflation rates within the acceptable range has helped CFOs by allowing them to better plan their forecasts/budgets. However, any change in the Repo Rate or other steps taken by the RBI has a direct impact on the borrowing capacity as well as borrowing cost of the organization.

CFOs should create scenarios analyses on how changes in the RBI position will impact the organization. Any material risk should be adequately highlighted to the Board/investors, and appropriate steps should be taken to mitigate those risks.

6. As per Governor's Statement: 8 February 2024

Focus Sectors

We have provided an analysis of the focus sectors below:

Technology and Innovation

The forward-thinking approach of the government towards technology and innovation could lead India to become a technology and innovation hub. India already possesses immense talent and has the potential to cater to global demand. The added focus on this sector will drive meaningful impact across sectors such as finance, healthcare, manufacturing, agriculture, and others. Various schemes announced towards upskilling the youth in AI, automation, robotics, etc. will also help in increasing the skilled talent pool as opposed to the brain-drain trend which has been witnessed in the past.

Manufacturing

The electronics, automotive, and pharmaceuticals sectors are set to witness increasing demand from both domestic and foreign markets. Various schemes under the Make in India initiative such as Production Linked Incentives (PLI), National Infrastructure Pipeline (NIP), and institutional mechanisms to fast-track investments will function as a catalyst for the growth of this sector and overall GDP growth.

Agriculture

Efforts towards modernization and diversification in agriculture could address sustainability and yield improvements, fostering growth in this cornerstone of India's economy.

Ports, Shipping, and Waterways

The GOI's announcement of setting up a Bureau of Port Security will uplift India's maritime sector. The government's commitment to increase port capacity under the Public-Private Partnership (PPP) model will provide Indian players a great opportunity as this would mean a capacity increase from the existing 2,600 MTPA (Million Tonnes Per Annum) to 10,000 MTPA in the next 20 years.

CFOs from ITeS and BPO companies can consider operating from smaller towns and cities, where they will get financial support and incentives from the government, which could result in higher margins.

The defense sector is now also banking on foreign countries by transitioning India from a defense importer to a defense exporter. The government has estimated manufacturing defense-related items worth INR 175,000 crores for 2024-25.

The semiconductor manufacturing industry is on the verge of making a huge leap. CFOs can aggressively invest in this sector further with the help of incentives from government. Various foreign manufactures have got approval or are already under the approval stage for setting up manufacturing facilities in India. The allied industries will also benefit from the set-up of these facilities.

CFOs from various sectors such as tourism, hospitality, and aviation may find a golden opportunity to grow their business into newer locations such as Lakshadweep, Dwarka, Ayodhya, etc. where heavy footfall is expected over the next few years. The governments' idea to popularize more local tourist locations may also attract visitors in the future.

Conclusion

The macroeconomic landscape of India in 2024 presents a nuanced picture for CFOs. It reflects a blend of cautious optimism and strategic preparedness. The uncertainties surrounding the upcoming elections and geopolitical challenges demand a cautious approach, yet the potential for growth remains promising. Regardless of the political outcome, the Indian economy is positioned as one of the fastest-growing globally, bolstered by strategic initiatives like Make in India and infrastructure development under schemes such as PM Gati Shakti.

The surge in foreign investment and the government's focus on sectors like technology, manufacturing, and agriculture provide ample opportunities for CFOs to drive growth and optimize financing structures. Moreover, the emphasis on supporting MSMEs, coupled with monetary measures by the RBI to maintain inflation stability, offers a conducive environment for business expansion.

As CFOs assess the evolving landscape, they must remain vigilant of changing policies and geopolitical dynamics, while strategically leveraging government incentives and funding programs. Collaborating with stakeholders and exploring new avenues for investment and technological innovation will be crucial in steering their organizations towards sustainable growth amidst the complexities of the Indian economic landscape in 2024 and beyond.

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