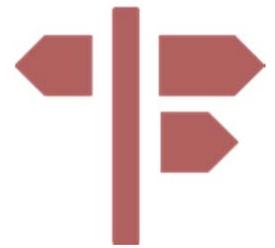


# Street view

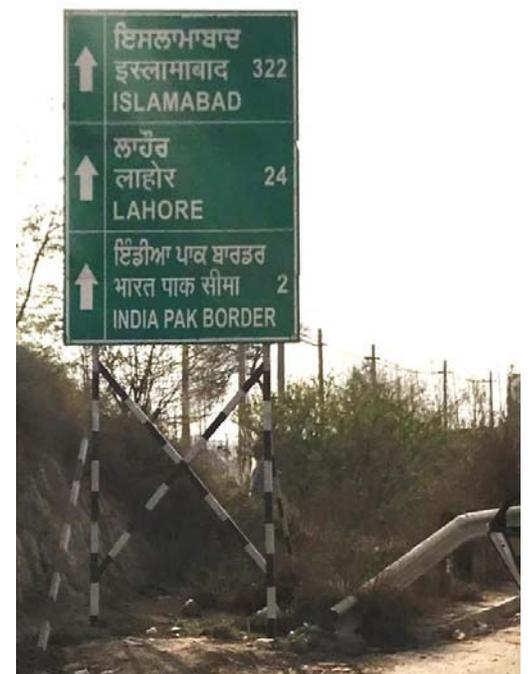
Travel notes from our **emerging markets** research team



A few members of our emerging markets team went on a research road trip to India in early February and this is an interesting demonstration to clients of our depth of research and where we seek out unique insights.

The objective of this trip was to visit semi-urban and rural areas and get a sense of the impact of demonetization, amongst other things. Our meetings included paint dealers, departmental stores, bank branches, farms, SME owners, and journalists. We consciously turned our focus away from meeting the large listed corporates that we typically invest in, to try and understand the broader ecosystem impacting these companies.

We started from the India-Pakistan border in the north Western part of India in the state of Punjab and drove down the state, finally visiting the city of Lucknow in Uttar Pradesh and New Delhi.



## Is demonetization being demonized for nothing?

In nearly every meeting, we had to bring up this topic and it was not proactively mentioned by the other party. This seemed to suggest that it was no longer as big an issue as it was made out to be by the media. Consensus opinion seemed to confirm an immediate and significant hit to businesses (due to reduced cash based transactions) but also that this was rapidly normalizing to varying degrees

across sectors. The property sector however has been harder hit and might take quite some time to recover, given 50-75% of transaction amounts were in cash/"black" money. However, it looks like this might have the positive impact of pushing people to consider other investment avenues like equity markets (borne out by domestic funds flow data) and investing in their own businesses (some anecdotal evidence).

Cash based transactions, which had reduced significantly post demonetization, have rebounded - but there still seems to be some amount which will permanently shift to the non-cash based and formal system. We did hear of a few instances where SME owners have opened bank accounts for all their employees and are making all salary payments through cheques and bank transfers.

**We would expect normalization of most businesses during the course of this year and potentially, a longer-term positive impact on the Indian economy.**

Demonetization might not have fully achieved its stated objective of reducing corruption by squeezing the informal/black economy and moving much of this to the formal economy – however it has had some success, especially when seen in conjunction with other inter-connected initiatives like:

- Implementation of GST
- Move towards digitization of transactions and processes
- Proactive IT enforcement of tax evaders
- Enforcing salary payments through cheques/bank-transfers
- Other measures in the offing



**A paint dealer provides more colour on demonetization**

What might this outcome do to the popularity of Prime Minister Narendra Modi and the ruling Bharatiya Janata Party (BJP) in India? Anecdotally, the demonetization move seems to have been popular with most of the lower income groups in the country who endured some temporary hardship for the perceived benefit of seeing “rich” people get hurt, even though it appears that this latter group has not been hurt to any significant extent so far. The state election in Uttar Pradesh, India's most popular state (over 200 million people) saw a stunning victory for the BJP, led by Prime Minister Modi. We feel that BJP's performance could be a harbinger of their (and importantly, PM Modi's) fate in the national elections in 2019, and strengthens their position to pass reforms.

**Bottom up, on the ground research**



Assessing the changing landscape of Indian agriculture – modern techniques like greenhouses and drip irrigation are on the rise and should increase farm productivity significantly.



**Our analysts and PMs**

From left:

- **Kelvin Teo** – analyst
- **Kevin Koh** – analyst
- **Geoffrey Wong** – Head of Emerging Markets and Asia Pacific Equities
- **Princy Singh** – analyst
- **Manish Modi** – Portfolio Manager, Asia ex Japan
- **Projit Chatterjee** – Senior equity specialist



Factory-floor of an SME exporter – threatened by competition from China, exporters need to find their niche



Department stores are replacing mom-and-pop stores



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