

"Demonetisation & Vistaar's Views"


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Executive Vice Chairman

"You must be the change you wish to see in the world"

- Mahatma Gandhi

Demonetisation & The Economy: As you know, Government of India has declared that the currency notes of Rs. 500 and Rs. 1,000 cease to be legal tender effective from 9th November, 2016 and also announced the issuance of new Rs. 500 and Rs. 2,000 notes in exchange of the old ones. This attempt of Government is one of the measures to fight the black money menace, fake currency and alleged use of funding for terrorism. But the impact of this move is felt across sectors and geographies with varied intensities and for different periods of time. Our view on demonetisation is based on current understanding of market, feedback from customers, and also from other players including few banks, NBFCs and rating agencies.

So far, we have seen a significant increase in bank deposits which has led to lowering of interest rates by Banks and we expect it to further go down. India being predominantly a cash economy, at the bottom of the pyramid, we have also seen impact on the repayments of loans by microfinance and MSME customers as their underlying business/economic activities are hit. The extent of impact could be different for different businesses/activities with some like the kirana/general retail stores with high degree of cash component in their purchases and sales being affected to a larger extent. We expect lower credit growth over next two to three months. However, in the medium term we expect this to boost the economy with a bias in favour of digital money and resultant increase in economic activities, revenues, tax collection etc. Government investment in infrastructure should significantly go up and we expect prices of goods and properties should come down which will also help to ease inflation. Demonetisation and the advent of GST (Goods and Services Tax) will eventually make the system more accountable and efficient.

Demonetisation will also throw up more opportunities for Banks and other financial services Companies. Government of India is also pushing to move away from cash and encouraging establishments to accept digital money. This is an opportunity for Banks and financial institutions to deepen the penetration of cards, digital wallets, Aadhaar linked payments, etc. All these will change the dynamics of the financial services market for the better in next 1-3 years and also reduce the cost of transactions.

Impact on the Company & Way Forward: As a Company, we expect the loan disbursements to slowdown in the coming few weeks but expect to normalise later in 2-3 months of time. Collections are also seeing some slowdown but an uptick is expected once again by January-February, 2017. We are continuously monitoring the situation on ground and engaging with our borrowers for enabling smoother transition. We are also providing our borrowers with a range of options for smoother repayments of their loans through cheques, RTGS, online payment portal etc. And on the liquidity front, we are in a sound position to fund our future growth.

Report from Ground 'Zero'

As Vistaar primarily operates in rural and semi-urban parts of the country and serves MSME Customers who largely deal in cash, upon announcement of demonetisation, we felt that this segment is most likely to be affected in short term and hence to understand the extent of impact, we spoke to Customers and other players and did two surveys, - the first one on 15th and 16th of November and second between 5th and 7th December, 2016, across eight states and more than six sectors/business activities. And the responses of second survey were different from first survey. The survey report from the ground zero depicts that post the decision of demonetisation-

- Close to three-fourth of respondents had seen immediate drop in sales.
- Accepting payments through cards increased from 2% to 13% within less than a month, although cash still dominates as a means of transaction.
- For making payments to suppliers, on-line banking and cheque/demand draft modes have seen an increase from 34% to 45%.
- During first survey, more than 50% respondents expected that the business would normalise within two months. And more than 50% have seen pickup in sales in last 10 days from second survey.
- Around 70% of respondents are still not sure about their business outlook in the immediate future.
- 75% of them also feel that they will go back to cash once situation normalises.

Snapshot – November, 2016

Branches	199
Districts	135
Customers	84,374
Employees	2,197
Disbursements (₹ Crs.)	486*
Portfolio (₹ Crs.)	1,077

* YTD

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