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End of war, covid will set stage for private investments: Sanjiv Bajaj

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A little more pick-up in capacity utilization in factories, which are now running at more than 70%, and a reasonable resolution to the Russia-Ukraine war will create the right tailwind for a revival in private investment, said Sanjiv Bajaj, the newly-elected president of the Confederation of Indian Industry (CII).

Businesses in the formal sector, especially technology firms, are steadily hiring people, said Bajaj, also the chairman and managing director of Bajaj Finserv Ltd. A normal monsoon will help tame food price inflation, while tax cuts could help moderate energy price inflation, Bajaj said in an interview, adding that businesses are expecting clues from the Reserve Bank of India on the roadmap for the expected monetary tightening.

Edited excerpts:

INTERVIEW

Retail price inflation has surged to an eight-year high in April. What is the impact on industry? Will it drag down consumption?

Multiple factors are impacting the economy now. There are uncertainties around the war (in Eastern Europe), besides the disruption in the global supply chain. Hopefully, the pandemic is less of an uncertainty now, but we never know. We have seen that companies have been absorbing part of their input costs. You will see some of it getting transmitted outside. From a common man's point of view, two big costs are the costs of food and fuel. On fuel, we recommend that both the Centre and states in a collaborative manner cut taxes so that it benefits individuals immediately. Secondly, many parts of India are facing a heatwave and early signs are that we may see again a good normal monsoon. If that happens, food price (inflation) will abate. We have also seen in the last couple of quarters, reasonably strong growth on consumer demand. It may moderate a bit, but we are not overly concerned about it at this juncture. As long as we address fuel and food (inflation), we should be in a reasonably okay situation.

To cool food inflation, what more can be done by the government?

Other than the measures taken, we are waiting for the monsoon. The government will have to be nimble on policies so that action is taken as required because there are so many factors—external and internal, which keep varying. We also believe that rural India, those that are linked to agriculture, are seeing better minimum support price (MSP); so with the harvest season coming, they should be doing okay, but in the non-agriculture sector, the rural population will need some amount of fiscal support. That is something the government will have to continue to do.

When do you expect private investment to take off?

In the last two-three years, we did not see significant increase in new investment in the private sector because demand was down and there were uncertainties during the pandemic. If there are uncertainties and people do not have confidence, then we do not see people raising money. We have now seen a large amount of deleveraging of balance sheets. In the last year, we have seen some sectors starting new investment cycles, not only in commodities and chemicals, but also in real estate and housing and in transportation. Overall, capacity utilization has crossed 70% and when it starts crossing 75-80%, you will see the new investment cycle. What we need now is a boost of confidence and we believe that as long as there is nothing more on the pandemic side and the war comes to a reasonable resolution or to an acceptable situation, such that confidence comes back, that will create the additional tailwind for private sector investment.

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> **Sanjiv Bajaj**
> President, CII

How will the policy rate increases by the RBI impact businesses and the non-bank lending sector?

Given where inflation is, and keeping in mind that in the few years to the pandemic, central banks all over the world expanded liquidity and lowered rates, it is a reversal of that cycle. It is a sensible and expected action. To that extent, we may see a few more rate hikes. What we hope to see in RBI's next policy review is some kind of roadmap of triggers they are watching out for to help them decide the extent and timing of the rate hikes. Because if the industry understands the roadmap, we can align ourselves to that. We are still far away from the normalization of the rates. You will see some impact. I do not think we do not have to be too worried about growth.

Is the NBFC sector out of the woods?

The pressure mainly again came through the pandemic and the disruptions it created. That is why the central bank has been very supportive with some of the direct lines it opened up to the NBFCs and encouraged banks to lend to NBFCs as well. Now, things are getting normalized. You are actually seeing many NBFCs coming out with strong results. A number of them are becoming as strong as mid-sized banks. Recognizing that, the RBI has brought in a tighter regulatory structure for NBFCs, which also makes a lot of sense. You are seeing NBFCs as almost a stepping stone to becoming a bank. This is something that the RBI should think more proactively as we need to increase banking services in the country.