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January 2017





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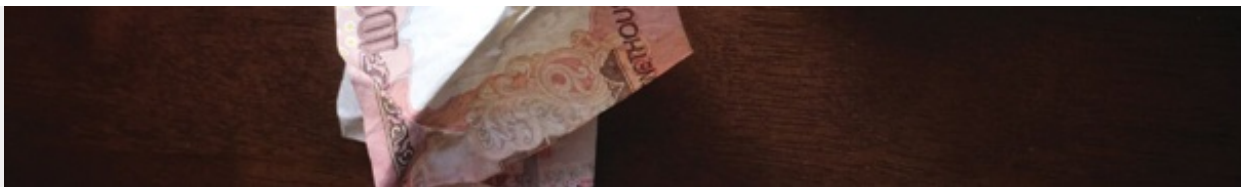
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## How Demonetization Impacted IT Trade and Business

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As the country struggles to get grips on the sudden demonetization, businesses across sectors and verticals slumped evidently. With almost three quarters of India's currency replaced, and the central government floating its vision of a cashless economy, we take a look at how this currency ban is impact IT Trade & Business across the country.

The historic step taken by the Central Government, demonetizing more than two-thirds of the legal currency notes in circulation has put the entire economy in a state of confusion. Businesses across verticals are faced with testing times with the resulted stagnancy in cash transactions. With far reaching effects, market hurdles owing to cash shortage and a promise of a more prosperous economy, businesses and consumers across the country have been having a hard time getting around the ban and cementing their resources in anticipation for a cashless economy.

“Installation of POS, e-wallet and other digital payment acceptance by partners is a must to tide over the drop in sales.”

### Saket Kapur

Director  
Green Vision

To get an overview of the situation, the currency ban which took place on the 8<sup>th</sup> November shocked the entire country, putting various entities in a state of panic. The demonetization bill, introduced by the BJP Government was targeted at putting

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a rein on the uncontrolled and unaccounted for black money in the market and the ever-growing fake currency nexus in the country. The hawala routes transferring black money in an out of the country had become a nuisance as it further boiled into a number of unlawful acts including terrorism, contraband, trafficking, and the growing grey market for products in India. Though aiming for a greater good, this demonetization has put new unseen challenges in front of businesses across verticals with many sectors witnessing expected slowdown in retail sales due to the scarcity of cash due to the move.

In the IT Industry, although the issue isn't expected to shake up businesses, though, there has been a slump in hardware sales of PCs, components, smartphones and other devices in retail. The industry on the other hand, has been welcoming to the decision as this would result in increased wire transactions, increased cash resources in banking sector leading to better fundraising opportunities, serious disruption in the grey market for IT products which will enable more business for the white market.

### **The Immediate Impact on Businesses**

The expected and clearest short term impact on IT Trade and Business due to demonetization is the slump in hardware sales from cash transactions. As Saket Kapur, Director at Green Vision states, "Immediate impact of demonetization is near term drop and/or deferment in retail sales imputed to liquidity crunch in the hands of the individuals and uncertainty in the minds of business customers." Estimates for GDP growth have been reduced from 7.3% to 5.8% due to the perceived impact of monetization. "Cash shortage resulted in fewer new business intakes, which in turn caused a fall in activity and ended a 16-month sequence of expansion," said Pollyanna De Lima, IHS Markit economist.

"This will create a positive impact on corporates who can leverage more liquidity for newer projects and investments."

### **Sanjay Patodia**

CEO

Galaxy Office Automation

All in all, IT and mobility are expected to be stable businesses

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through national distribution, however, cash businesses trading in processors, memory storage and flash products would be hit. Legal distribution networks of NDs & RDs are expected to topple the grey market. Trade will be hit in the short term but in the long term, businesses would adopt transactions through wire and online platforms.

**Enterprise-wise**, e-commerce companies including leaders Amazon, Flipkart and Snapdeal are likely to see the biggest negative sales impact as this signals a temporary demise for cash on delivery transactions, which accounted for major portion of luxury product sales online according to **Forrester Research**. **Morgan Stanley** has already slashed value of its **Flipkart** shares by **38.2%**, the ninth devaluation for Flipkart.

#### The Long term Effect on IT

The long term impact on IT Industry, trade and business channels seems to be all positive. The move is expected to result in faster GDP growth, inflation is expected to dip, and products will become more affordable which will fuel the demand and further growth of industries. On the other hand, this is a welcoming opportunity for the IT industry as the dependency on banking & online transactions and, communications is set to grow exponentially. Digital wallets and wire transfers are already the norm of the hour and companies like Paytm and other digital payment services are expected to go up. In the wake of demonetization, Southern Power Distribution Company which has a distribution network across six districts and 442 mandals in Andhra Pradesh tied up with MobiKwik to enable residents of Andhra Pradesh to pay electricity bills, cashless, through its online wallet services. There has been tremendous increase in utility bill payments after demonetizations as witnessed by such companies.

The step is being seen as an enabler for making cashless transactions become mainstream, it is expected to help in increasing cash flow for the banking system, which is currently facing a lot of deficit issues. This further can lead to helping businesses and industries. The industries are expected to benefit since liquidity will come directly into the banks, leading to a rate reduction and hence more cash will flow into the market as part of loan. This is expected to create a positive impact on corporates who will be able to leverage more liquidity for newer projects and investments. Green Vision's Saket Kapur opines, "In long term under the new regime of cashless economy, IT industry will remain

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neutral to it as most of the business is legit and on Bill, with no avoidance of Taxes at any stage of channel flow.”

“The move will help brands to grow and helps in curbing the fake, grey market, and Chinese import cash sales.”

**Rohit Agrawal**

CEO

Astrum Electronics India

Panelists anticipate a pick-up in business activity as high-value banknotes are replaced and black-market firms are forced to cease operations. Business confidence is already observed to have improved to a three-month high. Expectations of replacement of high-value rupee notes, improved advertising campaigns, favorable government policies and withdrawal of unregulated companies from the market have boosted sentiment for the year ahead.

**What the Industry Expects**

As demonetization is predicted to lead to an increase in cash flow among banking institutions, business investment and expansion is set to thrive. As Sanjay Patodia, CEO at Galaxy Office Automation opines, “Overall all the industries will benefit since liquidity will come directly into the banks, which will lead to a rate reduction and hence more cash will flow into the market. This will create a positive impact on corporates who can leverage more liquidity for newer projects and investments.”

Rohit Agarwal, CEO, Astrum Electronics India believes the solution vendors and brands won't have much problem but the ones in business with the China market won't be plying the same fate. He believes, “Those who are not selling brand but are importing from China will have a big challenge for them as 90% of their business is in cash. The main issue will be at the consumer level as most of the people are buying in cash and people are not habituated to use of debit and credit card so sales will suffer in short term.” Frankly, the Prime Minister's vision of cashless economy is not just a way forward, but one that needs to be taken up by IT business. “Installation of POS, e-wallet and other digital payment

acceptance by partners is a must to tide over the drop in sales," suggests Saket Kapur.

On the government's front, there need to be a lot of work at promoting payment methods like e-wallets, NEFTs, debit and credit cards. Giving incentives urging the population to go digital in their transactions is the next step. Saket continues, "Government of India needs to instill confidence in digital and other alternate payment mechanisms by incentivizing and discouraging cash withdrawals and thereby payments." Anwar Shirpurwala, Executive Director, MAIT adds, "This also calls for the Government to further look for means of increasing IT penetration, thus enabling every citizen to use technology tools and services for cashless transactions. Government should continue to give more emphasis on technology led schemes and programs for the betterment of the economy growth."

### **A Good Step for Business**

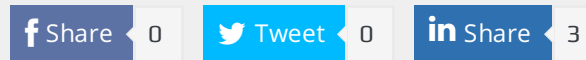
The move comes across as a boon for IT businesses, as achieving a cashless economy, and emerging from the effects of demonetization requires massive digitization and IT deployment across enterprises as well as public organizations and consumers. The ITES sector is expected to shoot, and the future promises a more transparent and catalyzed IT industry. Astrum CEO Rohit Agarwal states, "The move will help brands to grow and helps in curbing the fake, grey market, and Chinese import cash sales."

As the country slowly recovers from the impact of the sudden demonetization, this move to cashless transactions has enabled the enterprise world in subsequently getting ready for the GST law to be adopted in April next year. Saket Kapur envisions, "In long term, surely margins will improve and effects of demonetization will remiss, leaving normalcy of sales. Coming JFM quarter will see compensation in sales for the OND quarter conflated with financial year end trigger for sales. Demonetization conjoint with GST will beget business growth and overall expansion of the IT market."

In time, as things normalize, the bold move should accelerate economic growth through digital pipes of e-commerce and m-banking. It should result in the availability of larger revenues to the Government to fund infrastructure growth and the country wide internet penetration and digitization. With GST in pipeline, this demonetization will complement the government's move to ensure higher 'tax compliance'. Strict tax compliance will help

SMEs running legitimate businesses, who often find it difficult to compete with grey market counterparts.

Thus, this breakthrough step by the government, seen as a decisive step towards a digital economy, has been welcomed by the IT community with open arms by and large. Any ill effects, slump in sales across channels is a temporary hurdle as things normalize gradually with time. The resultant enterprise landscape is expected to be promising and clearer in terms of opportunity. Inflation is expected to go down and the flow of money is expected to increase. With time and adoption of the cashless ways to transact, the IT industry is expected to by and large stay put and further expand in the face of favorable Government policies.



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