

India Market Strategy

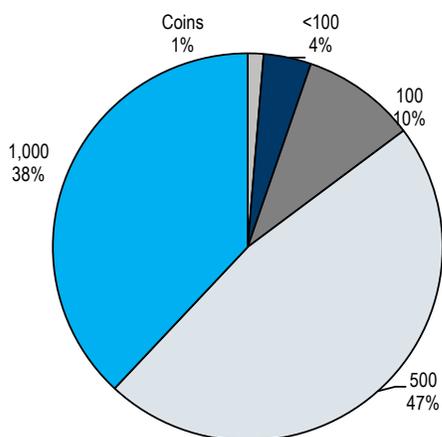
RESEARCH BULLETIN

Quick Take: Note cancellation - Implications

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- In an attempt to fight black money and counterfeit notes, the government has decided that Rs500 and Rs1000 currency notes (85% of currency in circulation, Fig 1) will no longer be legal tender from midnight, 8-Nov-16. The timing of this move is likely driven by VDIS (Voluntary Disclosure) closure on 30-Sep-16.
- The Indian economy is heavily cash dependent (Fig 2), in particular for last mile transactions. Removal of 85% of the currency from circulation will cause large parts of the economy to freeze temporarily, till the new notes are fully introduced.
- While in theory cancellation of legal tender can cause trust issues, we expect minimal such effects in this case. Instead, the transition of consumers/vendors to electronic transactions could accelerate greater scrutiny. Currently a large number of households report business income which is understated.
- To assess the impact on sectors, we classify them into less affected, significantly but temporarily affected, and sectors with permanent demand destruction. Outperform-rated: HCLT, TECHM, TAMO; Underperform-rated: BFIN, BHAFIN; Neutral-rated: TTAN, DLF.
- **Less affected:** IT services (formal business, demand outside India), Utilities (formal, with some stress at customers, i.e., SEBs seeing temporary delays in customer bill payments), Telecom (high cash usage in retail, but smaller denominations).
- **Significant but temporary disruption:** MFIs and NBFC collection cycles could get disrupted temporarily (may need regulatory forbearance); distribution channels of Staples, Pharmaceuticals and likely 2Ws could de-stock till currency availability improves.
- **Permanent/semi-permanent demand destruction:** this is likely to impact real-estate (and therefore cement and metals), banks that have real-estate developer exposure, and some NBFCs with builder-books. Some disruption in jewellery transactions could also be non-temporary.

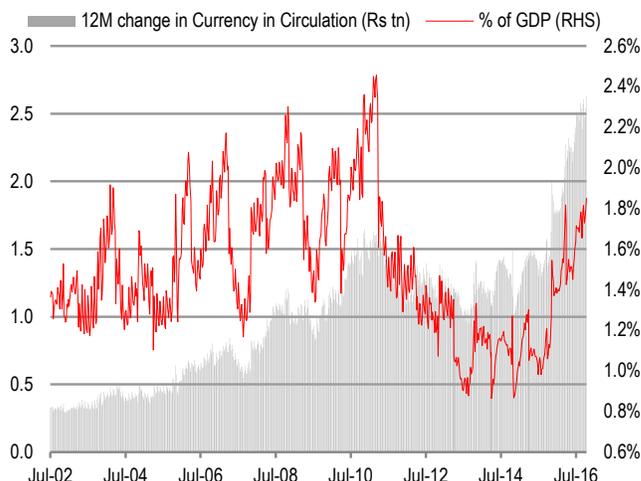
Figure 1: Rs500-1000 notes - 85% of circulation



Split of Rs 16.6tn Currency in Circulation by Value in FY16

Source: RBI, Credit Suisse estimates

Figure 2: Increase in currency in circulation



Source: RBI, CSO, Credit Suisse estimates

Figure 3: Impact of note cancellation on sectors

Sector	Implications
Sectors Unaffected/Less Affected	
IT Services	Formal and cashless business; end demand outside India
Utilities	Formal system; there may be some payment delays for their customers
Telecom	Despite large cash transactions, low ARPU means less Rs 500/1000 notes
Temporary Disruption	
Autos (2W, Tractors)	Distribution Channels operates primarily in Cash
Pharma	Distribution Channels operates primarily in Cash
Consumer Staples	Distribution Channels operates primarily in Cash
Oil Marketing Companies	Distribution Channels operates primarily in Cash
NBFCs/MFIs	Last mile transactions involve cash payments; collections could get disrupted
Permanent Disruption	
Jewelry	Disruption due to a portion of black money destruction
Real Estate	Disruption due to a portion of black money destruction
Banks	Banks which have lent to developers facing disruption may see spike in NPAs
Cement	Linked to disruption in Real Estate
Metals	Linked to disruption in Real Estate

Source: Credit Suisse estimates

Companies Mentioned (Price as of 09-Nov-2016)

Bajaj Finance Ltd (B.JFN.BO, Rs983.85)
Bharat Financial Inclusion Ltd. (BHAF.BO, Rs824.7)
DLF Ltd (DLF.BO, Rs143.65)
HCL Technologies (HCLT.BO, Rs808.35)
Tata Motors Ltd. (TAMO.BO, Rs540.2)
Tech Mahindra Limited (TEML.BO, Rs453.3)
Titan Industries (TITN.BO, Rs370.6)

Disclosure Appendix

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