

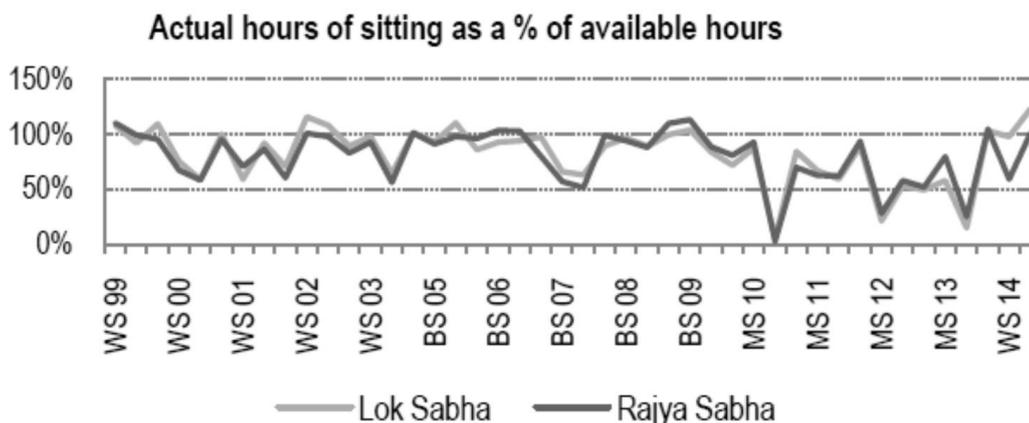
*" Oh my God what do I see, over my shoulder
Now that a year's gone by
Can't escape this memory, its burning brighter
Now that a year's gone by
And I try, not to linger, but I'll still cry
Now that a year's gone by
I hope we'll try to find some peace
Take from our history what is meant to be
Eventually the truth is plain to see"
Another year's gone by - Hootie and the Blowfish*

...

The Narendra Modi led NDA coalition has recently completed one year in administration. Judging strictly by the reaction of the markets, the euphoria surrounding their welcome is non-existent on their first anniversary. The media too has been non-hesitant in highlighting the many under-achievements of the Government. Tellingly, India's growth continues to remain below average and much remains to be desired as far as growth-pushing-policies are concerned. However, we believe that it is too early to measure the performance of the Government and that the yardsticks used may not be correct.

The first major disappointment seems to come from the Government's ability to push through reforms in the Parliament. While they continue to have a majority in the lower house, they seem to be facing stiff opposition in the upper house. Indeed, some of the major reforms like Land and GST bills are facing firm resistance, however it is not entirely true that Government has not been able to achieve anything. In our view, a number of steps have been taken to improve the productivity - at the governance level and at the economic level. Consider the following:

- In the recently concluded budget, Lok Sabha worked for 123% of its scheduled time, while Rajya Sabha's productivity was at 101% - both being amongst the best in 15 years

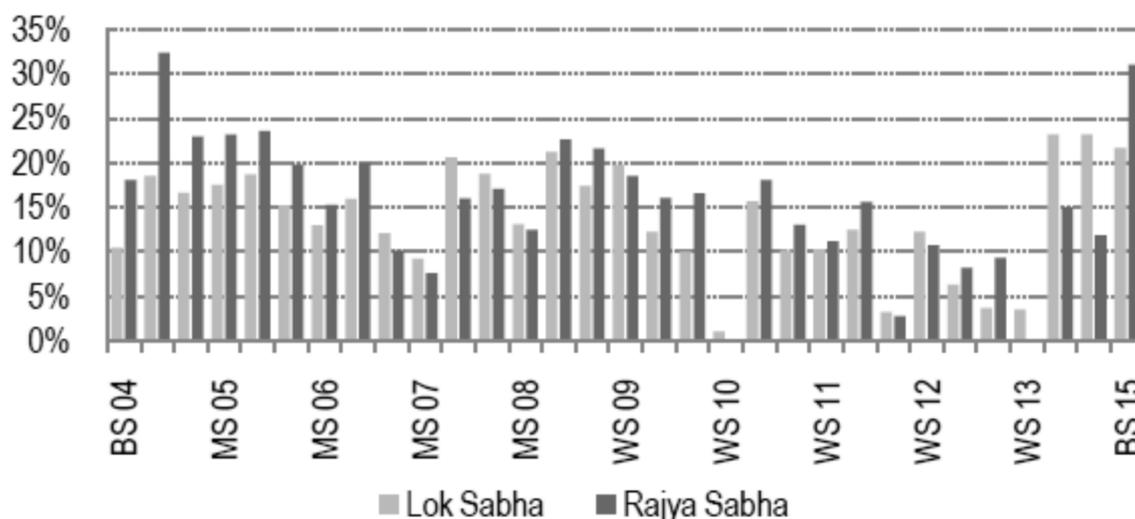


Notes: BS - Budget Session, MS - Monsoon Session, WS - Winter Session

Source: PRS Legislative Research

- About 134 and 135 questions were answered orally in Lok Sabha and Rajya Sabha respectively. Typically, in the last 10 years, the average has been 64 questions in Lok Sabha and about 70 in Rajya Sabha. Additionally, in the Rajya Sabha, 31% of scheduled questions were answered orally. This is the highest percentage of questions answered orally since past 10 years. On the other hand, in the Lok Sabha 22% of questions were answered orally, which was consistent with the percentage from the last two sessions

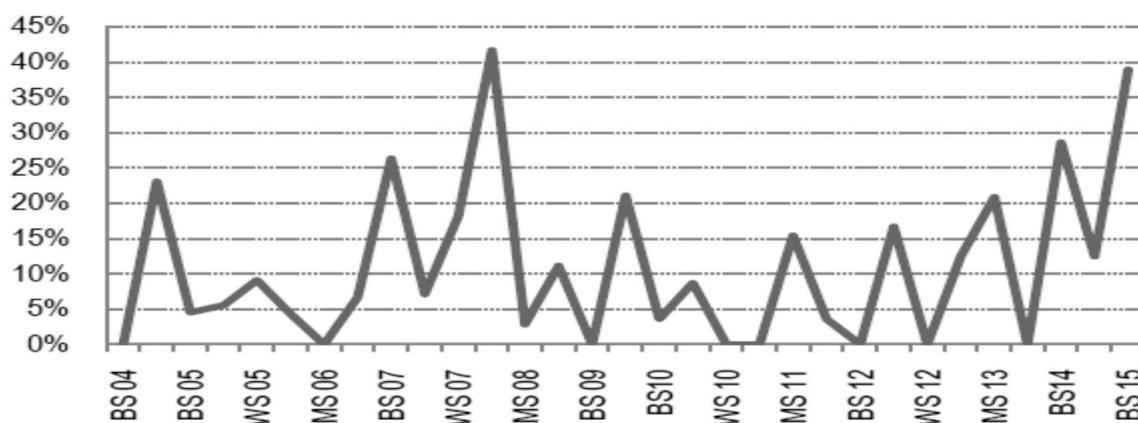
% of questions answered orally



Source: PRS Legislative Research

- Around 6 ordinances were tabled in this session for replacement with Bills - 39% of total bills introduced. In the last 10 years, the other instance when Ordinances had a high share of the Bills introduced was in Budget session 2008, when the ratio was 42%. Bills replacing Ordinances this session addressed insurance, coal mines, mines and minerals, citizenship, Andhra Pradesh reorganisation, and land acquisition. Of these Bills, five were passed and the Land Acquisition Bill (Ordinance promulgated twice) was referred to a Joint Parliamentary Committee.

Ordinances as a % of Bills introduced

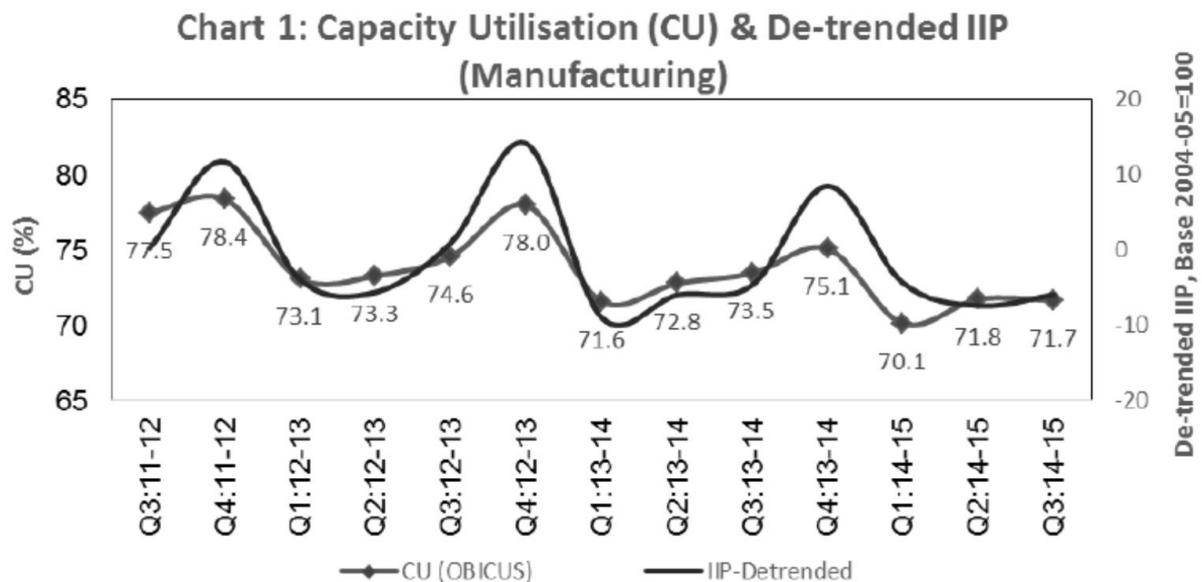


Source: PRS Legislative Research

Thus, it is not entirely true that the Governing machinery has not been functioning - it has, in fact, been functioning much more efficiently than seen in the recent years (in some cases as far back as 10-15 years)

The other question which needs to be answered is that can a similar conclusion can be drawn about the policy reforms?

Given the large amount of idle capacity lying in the industrial sector, in our view it is rather imperative to first effectively utilise the dormant capacity than to create new one



Source: Reserve Bank of India

We therefore believe that the Government's policy moves are rather pertinent than falling short of expectations currently. So far, the Centre has initiated steps in the following areas:

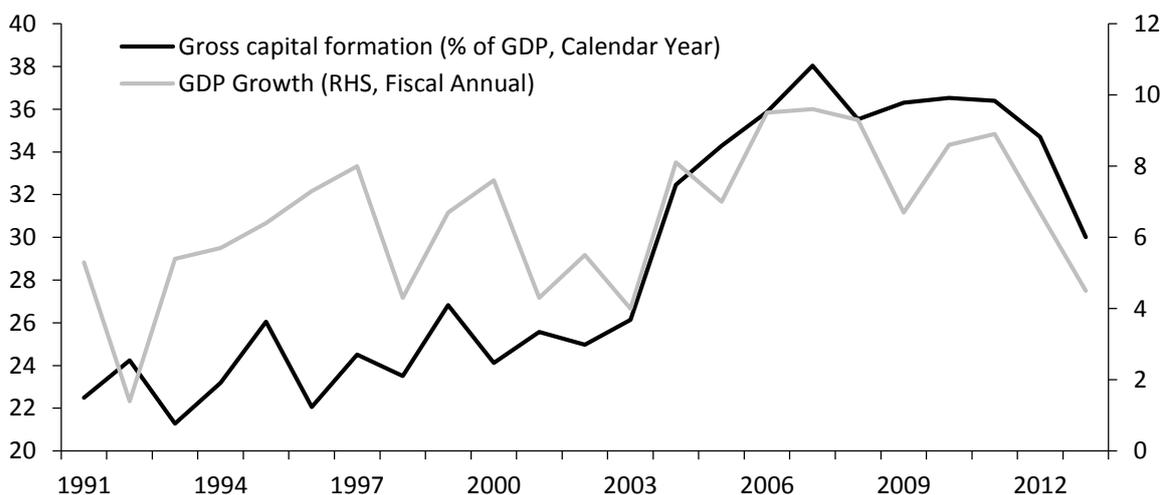
- 1) Transparent resource allocation (coal, minerals) with a view to untangle the mess in the power sector
- 2) Stress on infrastructure by way of increased budgetary allocation and by expediting the policy process with a focus on Roads, Railways, Defence etc
- 3) Enhancing manufacturing growth through programs such as 'Make in India' and focussing on ease of doing business by moving processes online, and
- 4) Harnessing the efficiency of Direct Benefit Transfer (DBT) scheme, through the 'JAM' trinity: Jan Dhan Yojana, Aadhar and Mobile

The debate between the effectiveness of what is achieved over the importance of what is not is never-ending, and not the primary objective of this communiqué. Rather, we intend to argue that the yardstick of measurement of the Government's performance, at this juncture, is probably incorrect. In order to make our point, we will borrow the wisdom from the lyrics quoted in the beginning of this communiqué - '**take from our history what is meant to be; eventually the truth is plain to see.**'

The first full tenure of the NDA coalition was between 1998-2004, led by the soft spoken but highly experienced Shri Atal Bihari Vajpayee (ABV). This is considered one of India's landmark 5-year period as far a growth is concerned. It was the policies of this Government that took India on to the global map (FII investments averaged INR 5,000cr per annum between FY93-98 as against 11,000cr between FY99-04 and over 39,000crore between FY05-10) and ushered the country into a high growth phase (average annual GDP growth rate increased from 4.3% in FY98 to 8.1% in FY04). The Government's focus on key infrastructure areas like Road, Power, Telecom, IT etc led to a sharp rise in employment and productivity, thus boosting growth.

This tenure of the NDA is amongst India's top political milestones over the last few decades. Inadvertently, PM Narendra Modi's development background from his Gujarat Chief Minister days and the NDA's past performance has led to hopes of a repeat of the 1998-2004 era. Markets, seemingly, have built expectations that the current Government will pick up from where it last left off in 2004 and take India back to the high growth phase of the past. However, despite ABV's push for growth based reforms, high growth kicked in only towards the end his tenure in 2004. In fact, gross fixed capital formation - an indicator of the infrastructure development in the country - saw a major fillip only after 2004.

India Gross Capital Formation (% of GDP) and GDP Growth



Source: World Bank, Economic Survey

In sum, macroeconomic transitions are a slow process – usually witnessed over a few years rather than a few months. Manoeuvring a large and diverse economy like India is a slow transition rather than an overnight advancement. Further, investment journeys are seldom a smooth rides; investors should expect a few speed bumps along the way. Going back to the previous NDA regime: It took reigns of the Government just as the Asian Financial Crisis had unfolded and faced a number of other challenges like the 2001 World Trade Centre Attack, Internet Bubble, 2002 all India droughts, stock market scams et al. As we have demonstrated in the earlier communiqués, to our minds, the only way that investors can reap the benefits of macro-economic transitions and not get bothered by occasional speed bumps, is by having a long term investment horizon and viewing volatility as an opportunity rather than a risk.

Until next month,

Team Tamohara

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