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BIG NEWS BLOGS - WEEKLY

(For the Week ending 08th February 2025)

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Repo Rate Cut - RBI has finally cut rates; at a time when it should have stayed put

RBI governor Sanjay Malhotra, left little to the imagination of investors. He clinically cut repo rates by 25 bps, but did not move on the other parameters. Rate cuts may have been a bad idea!

Inflation is far from conquered

The message of the RBI governor was that the inflation was largely in control and it was time to look at GDP growth. One can argue that the rate cut will act as a complement to the tax cuts in the Union Budget. However, a 25 bps will make little difference either to the cost of borrowings of corporates or the EMIs of households. It also gives the image that inflation is under control, whereas it is nearly 120 bps above the RBI target. A rate cut could only trigger inflation.

Rate cuts have rarely delivered

The more practical side of the story is that the rate cuts have hardly delivered growth in the past. For instance, it is hard to remember when was the last time that GDP growth got a boost from a rate cut in India. If rate cuts were the answer to the growth challenge, then Japan would be growing at much higher rates of growth, rather than stagnating despite near-zero rates of interest for as long as one can remember. Rate cuts can work well as a liquidity measure, but only in a crisis situation. In normal times, it is hard to buy growth by just cutting the rate of interest. RBI should have just stuck to inflation and jobs.

It is actually about the Rupee

One of the logical links between repo rate and the currency is that rate hikes strengthen the currency while a rate cut tends to debase the currency. India has to be extremely careful about this point. In the last few days, the rupee cracked beyond ₹87.50/$, largely on account of the rate cuts. A rate cut means that the Indian bonds become less attractive to global investors and it could only trigger a fall in the rupee. It would be naïve to believe that the US case study would apply in the Indian context. The US has the exorbitant privilege of being the global currency of choice for trade and investments. Even if the rates in the US were to go down, dollar demand would still be there. The INR does not have any exorbitant privilege like the Dollar.

Imported inflation; the X-factor

In the last few months, Indian inflation has been high due to the predominance of this X-factor. The USDINR is at ₹87.5 per dollar and this is largely due to the rather vicious cycle of mutual impact. India still heavily depends on imports for crude oil, copper, electronic goods, etc. In this light, any weakness in the rupee will be a double whammy. On one hand, it widens the trade deficit and on the other hand it makes imports costlier. That is why rate cuts may, at best, be a one-off event. The situation is just not conducive enough for more rate cuts. At least, that is not a growth solution!

Zomato is Eternal - A smart way to hint at a bigger digital canvas for the business

Last week, when Zomato announced the change of its name to Eternal, the social media was rife with a number of stellar memes. What sounds like a strange and funny decision, may be a lot smarter.

Gosh, Eternal for food delivery?

That would obviously have been the first reaction of anybody who would see the name Eternal as a perfect misfit for a food delivery website. After all, who will order Biryani from an app called Eternal. When it comes to ordering food, you need whacky and spicy names like the existing leaders. Swiggy, Zomato, and Zepto fit the bill perfectly, but surely not Eternal by even a distant measure. Also, why would somebody like Zomato want to lose all the goodwill that they have built as an app over the last few years?

The app is not changing, at all

The Zomato top management, and even Deepinder Goyal personally, clarified the same. The food delivery app will still be known as Zomato only. You will still download the Zomato app and not the Eternal app (thank God). However, what will change is the name of the holding company. It is a bit like Google still has its brand image as the Google Search Engine, but the parent holding company is now known as Alphabet. Over time, a brand name gets associated with some good things and some limiting factors too. At that point, such a name change helps to clearly distil the user attention.

What you associate with Zomato

If you were to perform a quick survey of users on what the name Zomato does convey, what would be the replies? The obvious answer would be that Zomato conveys the image of speed. It will also be associated with 2 words; viz Food and Delivery. That is a very strong brand association and will not change all that easily. Brand is also something that gets reinforced each time you see the Zomato delivery boy. Now, Zomato is planning to diversify into expanding the Blinkit franchise, launching the District app (hyperlocal activities), focusing on the B2B HyperPure business, launching Bistro snacks, and moving towards zero emissions. Some of these goals are too corporate in nature and would fit in better with a neutral name that does not convey the perception of Zomato or Blinkit. Eternal is the holding company.

Will the gamble work?

Today few remember that Reliance had started off with Vimal textiles. Today, the generic name (connoting trust) does allow it to seamlessly straddle across businesses like oil, chemicals, retail, new energy, digital etc. That is the kind of an association that Zomato is working on. For the loyal users of Zomato and the Blinkit app, not much changes. For the company, from a corporate perspective, the name Eternal is not only a more neutral sounding holding company, but also connotes broader business mix!

Trump Roars - But, this is actually the time for India to put its foot down firmly

Even since Trump took the reins of the White House for a second time, he has been behaving almost like he has been tasked to revive the erstwhile Roman Empire in the modern era. This is led to a host of rather questionable decisions.

Tariffs, deportations and more

Of course, Trump started off with his favourite task of imposing tariffs on some of the biggest exporters to the US viz, China, Canada, and Mexico. Trump is of the firm belief that wherever the US has a cost disadvantage, he will impose penal tariffs on such exporters. That surely beats logic. China and Mexico manage to export to the US because they are able to manufacture top quality products at a much lower cost. America's own cost structure does not permit that, so they depend on other countries. That is the basic terms of trade in the deal, but the Trump point of view is entirely different.

For a start, India has been saved the first round of tariffs. As a pre-emptive step, India went ahead and cut the existing tariffs on some higher end US products so that it does not snowball into a bigger controversy. That appeared to have hit the nail on the head. However, Trump has been trying to arm twist the entire BRICS group; basically, as it is trying to target India along with China and Russia. For India, it is much beyond trade, and that is why it is essential India adopts a stance that is aggressive and tough, but it cannot appear to be really combative.

Get tough on deportations

The first round of deportations by Trump reeks of arrogance. India has to make it clear that even illegal refugees must be treated as humans when they are sent back. Also, no democratic nations allows even the most powerful country in the world to land a fighter aircraft on their soil. It has to be a civilian aircraft. But, above all, in this episode, India must underline the need for the US to protect the human rights of these migrants!

Be tough on oil purchases

Where India buys oil from is a decision that India has to take as a sovereign. India has held its own in the last 2 years and it must do the same in future also. If India finds that Russian oil is the most economical to buy, then India buys the oil from Russia. How the modalities are worked out is a different issue. It is not the job of the US to tell India where to buy oil from; sanctions or no sanctions!

Put your foot down, now

In our dealings with the US, India has traditionally allowed the US to have the upper hand. It is high time to put the foot down and set the limits. Like Russia and China, without being overly combative, India has to draw the lines on trade, oil purchases, treatment of migrants etc. Both India and the US are invested in each other and it is time for India to be treated as an equal partner in a deal!