War Zone - Will the Indo-Pak stand-off have an impact on the Indian economy?

What started as an extremist attack in the scenic confines of Pahalgam, takes the form of a full-fledged war. As the war of words gets louder, the big issue is if this is going to impact GDP growth.

A lot to lose economically

For a fragile economy like Pakistan, war or no war would be the gap between disaster and absolute disaster. However, the Indian economy stands to lose a lot more; especially considering it is now among the top-5 global economies in terms of nominal GDP, and inching to fourth position. India not only sustained growth in the last 4 years, but has also been taking away a slice of the global manufacturing action from China. India, clearly has a lot more at stake in a war.

Much bigger than India 1999

One of the common comparisons is that India emerged much stronger after the 1999 Kargil war. Remember, India was much smaller back then. In 1999, India had a GDP of around $450 million. Even, leaving aside the exchange rate shifts, the current Indian economy is more than ten times that size. In this period, the per capita income of India has also grown by nearly 6 times. But the big shift is that India has emerged as a real power on the global table. Today, India is among the largest manufacturers in the world, does annual trade of $1.74 Trillion, if you add goods and services trade. But there is a much bigger story!

India as a manufacturing hub

In the last 3 years, Apple has given a big boost to its India outsourcing. Close to 20% of all iPhones made by Apple are now manufactured in India and this share is set to go up to 35-40% in the next few years. In the next couple of years, the entire US procurement of the iPhones will be made in India only. This is just the beginning, and there is a lot more of global manufacturing coming to India. The only country that gains if India is caught up in a multi-directional war is

China. Remember, Bangladesh is also fairly unstable, and they would also look to join in. India must be cautious that it does not get into a growth mess.

Does India really have a choice?

That is the problem. India has been following a policy of self-restraint for a long time and Pakistan assumed that India will not react. India has to make a clear statement that it may not initiate a war, but it would not sit back and watch an aggressive act from the neighbour. In a sense, Pakistan is in an economically hopeless situation. The danger with having neighbours who have nothing to lose is that they are bound to act in an irrational manner. Amidst the war cries, India must not lose sight of a basic fact. The only country that benefits from the current war is China, since the war has forced India to focus more on its border and less on its business. The war must end; as fast and decisive as it began!

Warren Buffett - Will Berkshire Hathaway be better off after Warren Buffett retires?

During the Q1 results announcement, Warren Buffett finally announced that he would retire by end of 2025 and give the reins to Greg Abel. However, Buffett remains as the chairman of the board.

A rather muted reaction

Immediately after Buffett's retirement announcement, the Class-B share of the company fell sharply. However, over the next few days, the stock has recovered and even recouped old levels. The big question is; whether Buffett's exit will make a big impact on the returns of the fund? Remember, in the last 60 years that Buffett was at the helm, the value of Berkshire compounded at twice the rate of the S&P 500. That is big, if you look at a 60-year period. However, it misses a very important perspective.

Not a great last few years

If you look back, some of Buffett's picks have had a dream run. He has held Coca Cola, Amex, and Bank of America for ages. However, the story is more of the big opportunities he missed out in the last 20 years. He did miss out on Microsoft and latched to Apple very late. The last few year's performance looks good largely due to Apple. Buffett has, however, shunned many of the new age stocks like Google, Amazon, Facebook, NVIDIA etc. All these stocks have been multi-baggers. One can commend his focus on his core knitting, but the fact is that the biggest stories were skipped.

Some great; some not so great

Over the years his trades in Coca Cola, GEICO, Bank of America, Amex, Wells Fargo, and Goldman Sachs have worked wonders for Buffett. However, he made some bad decisions too. He bought shoe maker, Dexter, which was worth zero. A few years back, Buffett bought heavily into airline stocks, but had to quickly book a loss and retreat. He had similar experience with IBM too; post which he became all the more wary of tech. His last few years have been all about the phenomenal returns of Apple. However, the big concern is that Berkshire sits on a cash stash of $348 billion, idling away in cash and treasuries. That is a story that beats the best of fund managers. Why are they not finding stock ideas?

Time is ripe for a change

Like in the case of Apple, when the founder becomes larger than the idea, it is best for the founder to move on. Abel brings a lot of expertise in new ideas, and it remains to be seen if Berkshire is able to make a big foray into some of the new ideas like artificial intelligence, green energy, machine learning, big data, lithium batteries etc. It would be the much-needed avenue to deploy the funds of investors. Back in 2008, Buffett had invested in BYD of China and sold it at a neat profit. With a cash stash of $348 billion, Berkshire needs a more institutionalized mechanism to deploy fund in lucrative cutting-edge ideas!

Bhushan Steel - SC Verdict further delays the resolution process for BPSL

In a rather interesting move, the SC has overturned an insolvency resolution deal which was moving close to fruition. The SC recently stayed the sale of BPSL to JSW Steel, terming the sale as flawed.

A quick background of the deal

The deal goes back 5 years when JSW Steel had come in the last minute and worked out a rescue plan for Bhushan Power & Steel Ltd (BPSL). Bhushan was under debt of nearly ₹47,000 crore to its financial and operational creditors. As against that, the eventual resolution was fixed by JSW Steel at ₹19,500 crore, that is not bad considering it is the range of 40% to 45% of the dues. However, a full 5 years later, after almost ₹17,000 crore has already been paid to the banks, the Supreme Court has rejected the deal, and called for BPSL to be liquidated.

Filing for a review petition

JSW Steel and Committee of Creditors (COC) have filed with the Supreme Court for a review petition. The stakes are very high at this juncture. JSW Steel already invested a lot of time, money, and its management bandwidth in this deal. The idea of going back on the deal does not arise for JSW. The COC would stand to lose the most. If the resolution plan does not go through, then the banks have to refund the monies and the money that they will eventually get from liquidation will be much lower. Neither COC, nor JSW Steel can afford annulling the deal.

Should sagacity have prevailed

One perspective, and rightly so, is that sagacity should have ideally prevailed in this case. Too much money, time as well as management bandwidth had already been invested in the resolution, so any going back would be too expensive. The other valid argument that is being given is that if the Supreme Court really wanted to annul the deal, it should have been done 5 years ago, when the stakes were not so high. Even legal experts are of the view that forcing Bhushan Power and Steel to now go for liquidation would only lead to avoidable losses to the acquirer and also to the lending banks. The core idea of the insolvency resolution itself is to find a reasonable resolution that can help realize the maximum value. This SC ruling goes against the grain of IBC.

Then, what about rule of law?

There is another section of legal eagles who believe that the Supreme Court has done the right thing. Adherence to the rulebook is non-negotiable. Clearly, the banks and JSW Steel were aware that what they were doing was against the rule book, and hence they cannot blame the Supreme Court for this decision. They also point to the fact that if expediency and commercial sense were the sole considerations, the rule of law would not be required. More importantly, this could serve as precedent for the future. This may look like a steep price to pay, but there is a strong legal argument too!