

This is Where it Really Hurts, Governor Subbarao

By Mallini Goyal and Tulika Raj

RBI's surprise 50 basis points interest rate hike this week was met with dismay by consumers and India Inc. But while big companies and car/home buyers get all the headlines, the sharpest impact of the ultra hard monetary policy is felt by the relatively smaller companies.

They expanded capacities in the past two years – now many are grappling with under-utilisation of plant as consumer demand turns sluggish in many sectors. Investments are on hold, some have imposed hiring freeze and operational costs are being trimmed. Being small,

not many have the size and access to cheaper foreign currency funds.

The following stories from five firms with turnovers ranging from ₹186 crore to ₹2,881 crore, give an idea of the entrepreneurial battles being fought as the cost of capital rises.

Cheaper foreign currency loan of \$100 m saved us

Anil Gupta, joint MD, Havells India



Havells India

Business
Electrical Goods Manufacturer

Turnover
₹2,881 crore

Employees
3,000

Funds Requirement
We have a foreign currency loan \$100 million, used to fund our Sylvania buy in 2007. We take short-term loans (₹50-200 crore) to fund our working capital needs.

The Impact

There is no problem with our foreign currency loan. May be when we refinance it next year it might get a bit expensive but not like what it is in India. Our distributors and dealers are experiencing a rise in cost in their working capital. So to help them we have taken compensatory measures – we typically give them a cash discount of 2% but early this year we have increased it to 2.5%. This would have dented our bottomline by around ₹15 crore. But for us the bigger worry is that interest rate hike has impacted construction activities which in turn is affecting demands for our goods.

Living With It

We are pushing for internal efficiency. Today we maintain a 60-day inventory of about ₹400 crore. We want to reduce it to around 52 days this year. Most of us increased our capacities in the past few years. We doubled our capacity in the past three years. Our plants are operating at a suboptimal levels.