



A Multidisciplinary Indexed International Research Journal

ISSN: 23203714

Volume: IX



ADHYAYAN  
INTERNATIONAL  
RESEARCH  
ORGANISATION



# **AN ENQUIRY AND THE EFFECTS ON INDUSTRIES AFTER THE DEMONITARISATION**

## **PAPER PRESENTED BY**

**Prof. MNR Sharma**

**Professor,**

**Aristotle PG College, Hyderabad**

### **1. ABSTRACT**

*India is a country with great dimension of languages, culture and Traditions. However the thought and outlook of Indian will not be changing since the era of Vedas, This country was experienced the cancellation of the legal entity cash by rulers and faced to adjust with the new currency.*

*We have enough examples from Ramayana period where the basic currency is called as MADA and tuglak introduced leather currency in past. However the change of currency in British India was known to all.*

*The Independent India has cancelled the legal currency almost all 3 times to regularize the inflow of the currency, to regularize the black marketing and the counterfeit currency.*

*The Present Government has taken the decision with all the reasons known as above apart to curb the election expenses in the five states of North India.*

### **2. OBJECTIVES OF THE STUDY:-**

*The basic objective of the study is divided in to the impact on every industry in the first 50 days and the tentative effect on the growth rate of Indian economy.*

*Hence the classification is as:-*

*a) To study the impact of demonetization on Reality Industry.*

*b) To study the impact of demonetization on the travel and hospitality industry*

*c) To study the impact on mobile and telecom industry*

*d) To study the impact on textile industry*

*e) To study the impact on Gold and bullion Industry*

f) *To study the impact on E commerce industry*

g) *To Study the impact on Agriculture industry.*

### **3. Need of the Study**

3.a) *86% of the total currency which is in circulation as Rs.500 and Rs.1000/- was withdrawn from the circulation w.e.f November 8<sup>th</sup> 2016. Only 14% of the legal cash in denomination was available to the public.*

*The Indian psychology is such that the housewife saves money in the kitchen starting with the currency of Rs.1/- and once it grows to Rs.100/- converts in to one single note like Rs.100/- note. In the similar passion once it reaches to thousand she converts in to Rs.1000/- note and it goes to her savings box in the kitchen.*

*At a particular time she lends to family members as loan brought by her from neighbors' as hand loan and to be repaid.*

*This is a common situation across India and the rulers and the Governor of the Reserve Bank of India have ignored the common women's psychology and lifestyles.*

3. B) *Indians are habituated to clear their transactions with cash instead of digital money or card system due to the prime psychology of the Indians – the personal touch.*

*Once the Indian buy anything he touches the product physically and visually and then releases the payments.*

*This hampered the circulation of the money apart buying the products due to non availability of the cash flow.*

3. c) *The industries plan the production in every month and the logistics and supplies are made through cash payments due to the disbursement of cash to the labor.*

3.d) *The Government of India and Reserve Bank has started the transfer of the cash from the Government Printing press after the 3<sup>rd</sup> day on wards and the transfer was not scheduled according to the needs and geography.*

3.e) *The time selected was wrong by the government and probably it was because to curb the black money at Elections in 5 major States. It was a time among the Indian houses to arrange marriages and the government pension schemes payments.*

*People were badly affected on this situation.*

3.f) *RBI took decision to print the 86% currency through new Rs.500/- note and Rs.2,000/- note in substitute of the legal currency as on November 8<sup>th</sup>, 2016 and the flow of the tilted to 3% to 12 % of the cash flow of the economy.*

3.g) *RBI focused a growth rate of 7.6% in the total economy during the financial year 2016-*

17, but it has realized and reduced its anticipations to 7.1% growth rate in GDP.

3.h) Governor of the Reserve Bank of India has announced in a press conference that the circulation of the Rs.500 and Rs1,000/- as on November 8<sup>th</sup>, 2016 was to the tune of Rs.11.85 lack cores in the 50 days.

3.i) NYT report observed that the damage was for the following sectors.

- a) Agriculture labour
- b) Real estate construction labour
- c) Retailers
- d) Services in all sectors.
- e) Surface sector
- f) Vehicle/automotive sales.
- g) Mobile and telecom industry
- h) Bullion Industry.

This report observed that the growth rate has gone back to the year 2000 financial year. This report observed that the circulation of the currency as on November 4<sup>th</sup> 2016 was 17.7 lack crores where as 9.2 lack crores was on December 23<sup>rd</sup>, 2016., in India ( a country operates the transactions by 98% in cash)

3.j) CRISIL reported that the confidence levels of the Indian Industries have reduced by 24% across the globe. The report further observed that the purchase power of the rural customers was badly affected.

#### 4. **Review of the literature:-**

- 1) The bulletins released by the Shakti Kanth Das the Principle secretary for Government of India regarding the situation on day/Week/month.
- 2) The bulletins released by the Reserve Bank of India.
- 3) The bulletins released by the Bank Employees associations of different banks.
- 4) CII reports
- 5) FICCI reports.

Were helpful to complete the study.

The study in detail is as follows:-

#### 5. **Study In detail:-**

##### 5.i) **AUTOMOTIVE INDUSTRY:-**

Automotive industry was the biggest loser due to the demonetarization.

The facts on observation says that the 12, 21,929 commercial vehicles were sold during 2016 against the sale of 15,92,315 units in 2015.

The car market was observed a decline of 22.04% in the sales with a figure 1,58,617 units in 2016 against 1,72,671 units in 2015.

*Two wheeler industry also badly effected with a decline of 22.04% and 9,10,235 units sold in 2016 against a sale of 11.67,621 units in the year 2015.*

*Second hand car market also reduced to 42% compared to the year 2015.*

*Hindustan Motors India Ltd, had stated that demonetization impacted the consumer sentiment creating a challenge and walk – ins at showrooms were down by around 40% while overall retail sales were down by 24 to 25%*

*However they have anticipated a growth of 5% in December.*

*Ford India also saw its domestic sales dip by 6.04% and to the tune of 5,556 units in 2016 against the sale of 5,924 units in 2015.*

*Mahendra and Mahendra also expressed the similar opinion.*

*Hinduja Group a flagship company for ASHOK LEYLAND said the sale was 10,731 units in 2016 with a decline of 12% compared to 2015.*

*MARUTHI SUZUKI sold 1, 06,414 units in 2016 against the sale of 1,11,333 units in 2015 with a drop of 4.4% net sales.*

*Whereas Nissan and Wolks wagon reported the growth. Royal Enfield has recorded a growth of 44%.*

*BAJAJ AUTO reported a drop of 22% sales in the two wheeler sector. 11% dipped in the*

*sales by 1, 06,665 units sales in 2016 where as 1, 20,322 units in 2015.*

#### **5.ii) Mobile Industry:-**

*Mobile manufacturers have estimated the decline of 40% in the Production .Many of the organizations have rescheduled their production due to the working capital/sales revenue was not in transit through the banks.*

*The President of Indian Cellular industries has announced that 50% drop in the sale of featured phones and 35 % fall in the sales of smart phones were observed in this period. The telecom industry will be effecting with 5to 7 percent of earnings in the coming months.*

*At present the industry is with the loss of Rs.4, 25,000 cores and the Reliance Jio has added the loss.*

*The Chairman of Big C has visualized that their organization has effected by 60% negative sales.*

#### **5.iii) Textile Industry:-**

*Textile industry in India is known for 7 lack employment in every year and with a record of 23thousand cores of exports.*

*Today textile Industry across India is facing the problem of payments towards raw material, salaries, and transport.*

*The import and exports of textiles has effected on cargo and many routes across the world experienced the decline of 25 to 30 percent and the situation was observed by the expert of*

NOMURA, and there may be a small relief to the industry to the tune of 8% due to the cancellation of Toll Tax during the November.

#### 5.iv) **Gold and Bullion market:-**

The Black money holders have acted wisely than the Prime Minister of India and within an Hour of declaration of the demonetization on November 8<sup>th</sup> 2016., have rushed to bullion market.

The entire gold traders did business on that day and the black converted in to white.

The agencies have identified this and started the observations on the bullion trade., which effected the sales from the next 2 days.

The government vision was successful and marked the price decline in the gold rate per gram.

The first 10 days (till 20<sup>th</sup> November 2016) the sales have dropped by 90% across India. And the sales figures have not reached to the magic figures till date.

North India was the worst victim compared to Andhra Pradesh, Telangana, Tamil Nadu and Karnataka states.

Mr. Sridhar, The chairman of All India jewelers exporters Association observed that there is a drop of sales by 50% compared to the last year in all seasons inspite of the drop in the price.

This is due to the insecurity prevailed among the Indians. This may be continued till

Dipavali ( the financial year 201-17 and 17-18 are effected).

Mr.Ravi Singh Head of NMC commodities Research has observed that the money holders have purchased the gold @Rs.55, 000 per 10 grams.

The Indian bullion market has imported 60 tons of Gold during 2015-16 financial year where as the same quantum was imported in November 2016, which is a result of Demonetization.

#### 5.v) **E Commerce :-**

The slogan of E commerce was cash on Delivery. Unfortunately E commerce organizations have to with draw their slogans due to the demonetization.50% plus business/orders were cancelled and the E commerce companies were forced to go for losses due to payments to cargo/shipments on the way on 8<sup>th</sup>, 9th, and 10th Of November 2016.

Naptol, Home Shop 18, have made a drop of 80% sales where as flip cart made a loss of 40% net till date. The mobile phone sales have dropped to 33% from E commerce companies.

#### 5 .vi) **Tourism:**

Tourism contributes 6.3% on the total GDP of India, and every year contributing Rs.8.31 lack crors. 40% to 60% of the revenue of the small and budget hotels vanished due to the non occupancy of the tourists, due to cash crunch. 90% of the bookings of the cabs were

cancelled due to the non availability of the cash in circulation.

INDIA RECEIVED 8, 91,000 TOURISTS DURING THE NOVEMBER 2015 and recorded 14,474 crores, of money spent by them in India in all categories of Hotels. But November 2016 recorded a drop of 67%.

According to the Associated Chambers of Commerce & Industry of India there was a drop of 65% in Charismas and New Year day vacations. Indian tourists generally visit Uttarakhand, Madhya Pradesh and Kerala have decided to be at homes. Following the traveler advisory to the foreign nationals the tourists were dropped by 45% due to the cash crunch, liquidity of cash, currency exchange in India.

GOA was the worst hit due to the New Year celebrations. The surveys were positive and found that the group travels were not affected. The Individual tourists were badly affected.

#### 5. Vii ) **AGRICULTURAL**

India is a country of agriculture. More than 70% population depends on it.

The farmer was unable to purchase the seed, pesticides; payments to labor hampered the agriculture.

The buyers in the markets were unable to pay the farmers due to the cash less system to due to demonetization. The coming 2 crops will be showing the adverse effect of the cashless system of Government on the farmers.

The Agricultural Market Committees have noticed that the dal price was dropped by 7,000/- per bag within 48 hours of announcement of demonetization.

The recovery to the financial institutions from crop loans was dropped by 60%.

Whereas the lending of banks was dropped by 99%.

The first 50 days affected the farmers and it reflects in the next two crops.

However the reports of JM financial institutional securities limited differed with the present situation in the following states:-

- a) **Gujarat:** Dominated by cash crops like cotton, groundnuts will yield better but the minor or small farmers use maximum of output towards the seed for the next crop.
- b) **Haryana:** Harvesting in paddy is done. Cotton to be completed. But agricultural imputes have badly affected.
- c) **National Capital:** Agri trading (vegetable, fruits) has been impacted adversely due to prevalence of cash based transactions; trading volume remains below than normal levels with enhanced impact on small traders and daily wage earners.
- d) **Madhya Pradesh:** There has been leverage increase, of small

farmers for procurement of seeds, agri inputs, and more.

- e) Andhra Pradesh: Pest attacks, was the major issue and the remedy was failed due to the lack of liquid cash in the farmers.
- f) **Telangana:** There has been rise in the kharif output YOY; however, increased sales done through mediators and overall sales in mandis are yet to normalize

Reduced cash flow after the kharif season has clearly increased the current debt levels and that too from informal channels (money lenders, agri traders). Overall 44% of rural credit is through informal channels and 25% by co operative society/ banks,

Due to liquidity related challenges and issues with co operative banks after demonetization, dependence on money lenders has increased for the small farmer in the interim.

5. VIII) **REAL ESTATE:** The real estate field is the one which provides employment throughout 365 days in a year across the nation. Many trades like manufacture of bricks, transport of sand, cement, iron, plumber, carpenter, drainage, structural, construction labor, government etc are the direct beneficiaries. Direct and indirect livelihood is the specialty of this industry.

According to the survey Hyderabad, Ahmadabad, Pune, Mumbai, Chennai,

Kolkata, Delhi National capital, Jaipur, were the places affected by the decision. 44% of the ready to shift homes were left as unsold. Buyers were postponing the decision due to the cash crunch.

Many of the agreements were made with cash and the settlements were not fulfilled. Builders have faced the cash crunch of Rs.22, 450 crores where as the governments have lost around Rs1,200 cores as registration fee. The startup of construction was also reduced by 39%. And the reality has back to 2010.

5. ix) **RETAILING :** retailing is nothing but detailing. 90% of Indians are habituated to cash and carry from the nearest retail shops. These shops are under proprietary concerns and the operation of business is self investment, credit from markets on good will, and loyalty of the customers.

Being the withdraw of the currency in the first week of currency the returns from the customers was not in time to the shop keeper and the capital was blocked. The industry faced cash back from the kirana shop to whole sale and the entire channel of distribution has blocked with the cash crunch.

Even the introduction of the Rs.2, 000/- note has become as a practical joke on the kirana shop.

## 5X) **SMALL BUSINESS SECTOR**

State Bank of India conducted a survey among small businesses. 30% respondents north India have said their business transactions reduced by 50% and in west 23% said that they lost by 40 %.

The main problem faced was the introduction of Rs.2, 000 note only in the first 25 days resulted chaos as there is no currency in circulation for disbursement of change to the note.

Overall 50% of the business houses were disturbed for the financial year 2016- 17 and SBI observed that the loss will be continued for the next financial year. Every sector inclusive the road side business was damaged.

#### 5.X) **BANKING SECTOR**

The banking industry lost the confidence by the public. The savings bank account / Recurring Deposit account which an important tool to the banking business has lost the faith in the public due to the RBI orders.

Banks were functioning only to deposit the old currency and to transfer them to the cash chests. They have gone away from their basic business of lending – a source of revenue.

Banks have to pay the overtime charges to the employees due to demonetization. They have paid huge amounts for security agencies and hospitality. The All India banks association said Rs.35, 100 crores were spent on recalibration of ATMs in India.

**THIS WILL DEFINETELY A TAX ON THE CUSTOMERS OF BANKS AND THE TOTAL EXPENSES WILL BE THROUGH CHARGES FOR EVERY TRANSACTION DEALT WITH THE BANK.**

#### **Negative Impacts on the Indian Economy:-**

Liquidity squeeze caused by demonetization will be negative across all sectors with high level of cash transactions. Lending space will be facing short term instability for a period of 2 years. Those companies with high level of debt will face more pressure and can face loan defaults.

There will be an added cost of replacement of currency. The ATM machines have to be modified and the banks will be trying to recover the money only from their customers.

The implementation of PENAL provisions will be making more currency in market without accounting this will lead INDIA as VENIJULA.

Pal A Kishan, Director , International Monetary Fund ( Asia and pacific) has released his report and observed that the Government of India and the Money Holders have played vitally and the drawing of the money in circulation by Government of India and the with draw of new currency by the black money holders was like Vacuum Cleaner cleaning.

**This report recommended:-**

- 1) The crisis of the currency is still in progress. The current situation has to be handled like helicopter drops system used by the developing nations.
- 2) The Government of India has to pump money in to national continuously.
- 3) The government has to accept the old currency in the rural area again.
- 4) The undecided corporate may lead to imbalance in the payments. These effects on the GDP as well as bad debits in the banking sector.

Government of India has released statistics and confirmed the decline of GDP due to the manufacturing sector and mining sector which contributes 55% revenue of the economy have not shown any positive signs .

Agricultural sector shows the growth at 4.1%, forest, fisheries growth rate may be at 1.2% where as mining and manufacturing at reverse 1.8%, in the financial year 2016-17.

Whereas former Governor of RBI D.Subba Rao expressed mobile banking, cloud computing, payment systems may increase the quality of the banking sector.

## **BIBLIOGRAPHY**

With due acknowledgement to:

1. Articles appeared in The Hindu
2. Articles appeared in The web sites of FICCI, ASSOCHAM,
3. Bulletins of Ministry of Finance,
4. Bulletins of reserve Bank
5. RAI news bulletins.
6. Bulletins of Telecom Industry.
7. Bulletins issued on Indian Construction.
8. JM morgan Stanley reports.
9. Financial express.