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Q&A-People want India to lead on green investments; Energy transition only possible commercially: Bharat Kaushal, Hitachi India



India has traditionally been a follower of trends and its success with instant real-time payment system UPI makes it critical to focus on climate friendly aspects of new investments, **Bharat Kaushal, Managing Director of Hitachi India** told the Reuters Global Markets Forum in Davos, Switzerland on Monday, January 16.

"I think digital has catapulted us to a leadership position and people want to know what India is going to do next. It's UPI now, will you do ONDC (Open Network for Digital Commerce) the same way? Will you do the other bits better and smarter and link the whole chain?" he said.

Due to tentative economic conditions, it is not possible to pursue the energy transition without considering its commercial element, Kaushal said, as transition costs and cash flow needs differ for multiple industries that have no standardisation on net-zero definition.

Following are edited excerpts from the conversation:

Q: The Reserve Bank of India recently granted Hitachi payment services an aggregator license. What is the long-term vision for Hitachi's payment services?

A: As you may have known, we have set up a joint venture with State Bank of India. We believe that this whole value chain of digital transactions are seeing two very major directional changes. One is that India as an economy, we log all the digital transactions, but actually cash has also grown 35% since demonetisation. When you catch the whole play, then the ATM machine, the POS machines, the cash side and also the digital side needs to be seen holistically. I think in the value chain, business have exploded in terms of volumes, but the margins and profitability obviously become more commoditised. The best way is to move up in the value chain from wire side of the business, to the issuer side of the business. What we are experimenting also with State Bank of India is whether it's (merchant app) YONO or the health services, the education services, which are (the) common denominators to assimilate rural households into the definition of middle class.

Q: Which areas specifically is Hitachi concentrating in India on and are you looking at any new acquisitions?

A: I won't be able to straight away comment on the acquisition part, but we have significantly been in the acquiring mode in the last three to four years. From a business direction perspective, we had departments like infrastructure, we had manufacturing and we had digital businesses. However now with energy being offered as a service, mobility being offered as a service, infrastructure as a service, GlobalLogic adds the experiential outcome to the last mile. That differentiates us from having an outlook in infrastructure only for high single digit or low double digit return to changing a new narrative and having an OpEx (operating expenditure) driven IRR (internal rate of return). There are base level horizontal businesses that are common like hydrogen, like magnets, like semiconductor, like artificial intelligence, green which are common across business verticals. Rail businesses, you have very high volumes thanks to public investment in India both for modernisation of Indian railway where we are a significant player and urban mobility driven metro business. We are also the chosen technology for the high-speed train between Mumbai and Ahmedabad. We have a lot going here. But at the same time, using not low cost but competitive solution in India, we are also targeting markets where we have already won metro deals in Washington and Ottawa and other places in North America.

Q: In terms of investments, what are you looking at in investing into this business going forward?



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A: We have done a lot of investment both globally with a huge impact on India and obviously there is money which changed hands between major global titans in capacity terms who have come on to our fold. I also feel that you have to keep going back to the drawing board in terms of what is organic and what is inorganic in terms of the shelf life. The speed of change is too much. Somewhere the supply chains in India still live between assisted intelligence and augmented intelligence. First idea is to smoothly streamline a lot of these new capacities that you've got. Make sure the transfer of technology, especially under new government schemes where government partly funds the capital goods enhancement of transfer of technology allows you to keep the IPR (intellectual property right) for a certain period of four to five years because it takes a few years to develop it. That makes a great business case.

However in India, where in my personal opinion the difference is between a developed market where industry 4.0 unleashed a society 5.0, India as a society actually became more entitled and empowered sooner. That is making a very attractive proposition to bring investments in industry across the spectrum. So somewhere it will be for India and somewhere it will be from India and that hybrid is going to seek more investment. Businesses which are priorities are rail, energy, digital. Urbanisation driven business, which is very high speed in India, will grow 10, 12 times. While in rail I can talk about Washington, in energy, we can do transcontinental grid network. In smaller components like automotive, elevators, escalators and so on, there's a regional dimension of globalisation. It doesn't make sense to transport it to South America or far off distances. So yes, these are four to five areas where we think we can become a market leader with good returns. Now obviously this is all evolving. It's not just about investment, it's about capability and capacities on the ground.

Q: What do you think of conversation about climate change and energy being taken over by energy companies now?

A: I'm not commenting on the side of the energy companies. It's true that transition is only possible commercially. There is so much of economic tentativeness, it's not possible without being smart. If you look at the broad compartments, whether it's the distributed renewables on grid, off grid, hybrid, whether it's smart grids and the losses that happen or it is fossil fuel decarbonisation, the net zero definition has very different components for different industry sets. There's no standardisation yet. What you want to see here is more leadership position which is acceptable and is also transactable in some sense because you can't consume everything yourself and is the incentive enough. You need to go to work with people who will come from different parts, their financing and cash flow needs will be different.

Q: What are some of the challenges and strengths that you see that concerns India as we head into 2023.

A: I think frankly speaking, India has the might to absorb a success story even for Japanese money and Japanese economy. The size of Japanese economy will not have the similar potential in other markets where they are successful. But now with other countries of emerging markets not presenting themselves in as strong a manner as India on stability and led by public investments in core sectors and established leadership position in digital, is like a new genre. That's why it becomes critical to focus on the green part in terms of new investments and then being smart. What people want India to do is do a UPI on green.

But there is a struggle everyone is going through. If you see, even the declaration of the global forums takes a few days because financial institutions and countries have to commit money for what? Nobody has extra money today. It should be smart and saving even if I can say in five years there is a better saving, then I'm going to make it. From design to process to outcome, everything is monetisable from our standpoint.

Q: Are you worried about the prospect of a recession? How deep do you think it will be and how much of it will come to India?

A: I've been an investment banker for 25 years and I'm an economist by training. When you discount it already so much, the depth and the way out of it is kind of being better understood by a lot of people. They've become more frugal and they are not experimenting in the manner of or treating growth in the manner they should be for redefining so many capacities. In the Indian context, there is no doubt every recession will affect certain industries more. I think the world is going to see India beyond China plus one. (The world is) going to see India as a case where 'for India' and 'from India' will certainly take more centre stage. I'm not saying it's an advantage that the world is going to go into recession, and so it's (an) India advantage. But I'm sure that it's not only a challenge but it's also an opportunity if we get it right.

As an economist, there is a band in which monetary policy plays a tool. Demand and supply is a much larger word than this. As long as we can bring competitive solutions, I think this is going to be a great signal to force the world into more competitive solution building. When growth happens for a decade, then there is a lot of extra width which is unutilised, and people need to very seriously work on redefining themselves and also collaborate and not do everything themselves.

Q: What is Hitachi's plan to navigate in current geopolitical climate, with recession coming, what is the advantage to Hitachi and how will you navigate it?

A: In one of the recent CEO dialogues, the biggest of companies said they're also waiting for a trillion-dollar rebuilding Ukraine opportunity to come with 30% return margins or something. I think all said and done, the world will go towards making themselves commercially smart. There is no way out because there is pressure and the noise around climate change manifestations in the last four or five years have been just too acute. Especially in the Western world. So that echo is much bigger. However, transition costs are higher and therefore volumes will make a lot of difference and that's why you can't be at one end of the spectrum. That's why I said design and process and outcome, you'll have multiple partnerships like that. To that extent for sector by sector, mobility may behave different from energy and then energy from digital, that is true. But whenever you can, I mean industrial automation will see better results. That is certainly here to stay.

Q: In their CEO survey, PwC found that 40% of CEOs said their business may not be economically viable in the next 10 years. Is that something that is worrisome?

A: I think it's a reality. I cannot doubt it. Yes, the nature of how to do business will change but balance sheet will also play a role. The balance sheet guys, it's like Goliath's revenge. You know, when the other guys will fall faster. I mean, look at tech stocks versus gold sector performance in the last one year. Where it went and where it's come now? The reason why I say this is, it's not about tech now. But the soaring valuations based on experiential outcomes has taken a correction. The core sectors utilisation from demand and supply perspective has not been so dramatically altered. It's just that you projected high, put more money, that is going to be cut down. There is no doubt about it. Somebody will have to lead, the speed of change is tremendous. I was a traditional B2B player having a century old reputation or credibility of doing world class manufacturing. Now when I'm talking to you, I'm talking about everything as a service because I don't break the narrative if I don't connect the whole value chain. That's why the elements coming from the citizen user side, the elements coming from the industry rising to industrial automation or the augmented intelligence, automated intelligence journey are very critical. But you don't put all your money behind one. Hitachi has maybe some advantage that it gets to see different cash flow cycle businesses at the same time on its canvas, while other players may be more focused on a certain area.

Q: What role do you see Hitachi playing in India reaching its climate goals?

A: We see ourselves as a partner institution because India is easily one of the fastest growing large economies and it will continue to do so as it appears just now. Because you're growing faster, obviously you will be in the center of saying that you should be able to afford the smart change and smart transition better. Whether it's in rail, I think as we move towards OpEx model, it's even making business sense for us. To show that the cutting edge is coming because it is cleaner or better, more sustainable.

Q: Where do you see India's digital India campaign progressing next?

A: It's like a public policy predicament. We have never seen ourselves, other than being a follower of global trends in the middle of Europe, when it came to industry and industry forward auto, I think digital has catapulted us to a leadership position and people want to know what India is going to do next. It's UPI now, will you do ONDC (Open Network for Digital Commerce) the same way? Will you do the other bits better and smarter and link the whole chain?

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