Opinion

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STEADYING GOVERNOR'S SHIP

Raghuram Rajan, former Governor of RBI

The position of the RBI Governor [and] what level he or she occupies in the hierarchy is completely left up to the spur of the moment. It is time that we make it clear what that position is and why that position exists for the other regulators as well

Can't keep raising central transfers to poorer states

Rising gap between rich and poor states problematic as, beyond a point, higher transfers are a political time-bomb

WITH AS MANY as 9 of India's 17 non-special category states growing at a slower pace than the average for the country in the FY13-17 period—it was five for FY18—and the gap in per capita incomes rising dramatically in this period, it is clear that business-as-usual is no longer an option. According to a Crisil study of the performance of various states, for instance, Bihar's per capita income was ₹11,955 lower than the all-India average in FY03, but this rose to ₹73,975 in FY18; the gap rose from ₹7,050 to ₹49,081 in the case of Jharkhand. On the other hand, Haryana's per capita income was ₹11,458 higher than the all-India average in FY03 and this rose to ₹76,304 in FY18; the same numbers for Gujarat were ₹3,798 and ₹52,567.

Though it appears so at first glance, it is not an unalloyed rich-are-getting-richer and poor-are-getting poorer story. While Bihar and Jharkhand were undoubtedly poor states that got poorer in relative terms, Punjab is a rich state with a per capita income that was ₹10,424 higher than the national average in FY03, but at an average GDP growth of 5.7% in FY13-17, the state was the poorest performer in non-special category states save for Jharkhand that grew at 5.4%. Indeed, while Tamil Nadu saw its extra per capita income—over the all-India average—rise by 18.4 times between FY03 and FY18, that for Punjab rose a mere 2.4 times.

Nor was the reason for the higher growth the same across states. So, in the case of Gujarat and Karnataka, manufacturing was the main driver of growth, while in Madhya Pradesh, it was agriculture that ensured it was the second-highest growing state in FY13-17, with an 8.1% annual growth versus Gujarat's 9.9%. Another agricultural state, Punjab, on the other hand was one of the slowest-growing, primarily due to the fact that there was little diversification in its crops from wheat and rice into crops that had higher value addition, nor was there any move towards food processing or promoting industry in the manner Haryana did. While data for FY18 suggests that states who have spent more have managed to raise their growth rates, this, too, does not hold true across states. So, Bihar had a high GDP growth and a high deficit in FY18, but Gujarat had a high growth with a low fiscal deficit and Punjab and Kerala had a low growth with a high deficit in FY18. As Crisil found, for all states, central transfers were 9 bps higher than the target in FY18—as a percent of GDP—while the states' own-tax revenues were 33 bps lower; states that grew slowly had lower own-tax revenues.

In the past, such lower growth would have been countered by higher central transfers but, while poorer states get a higher share of central transfers than richer ones, there is increasingly a backlash against this. Last year, both Andhra chief minister Chandrababu Naidu and Karnataka CM Siddaramaiah raised the issue of southern states subsidising the northern ones. More important, higher central support in itself cannot raise GDP growth beyond a point. In other words, if states want to reverse the trend, both the Centre and the states need to embark upon big reforms. Reducing farm subsidies could, for instance, shift agriculture production to the eastern states and lower imposts on minerals along with quicker clearances—both the Centre and the states are to blame (*goo.gl/oghs6D*)—will boost both growth and employment in many eastern states as well. More liberal labour laws, similarly, are responsible for higher industrial growth in states like Maharashtra and Gujarat. Theoretically, if there aren't enough opportunities in a state like Bihar, the population can migrate to a Gujarat or a Maharashtra, but there are limits to this since a large-enough migration will trigger a sons-of-the-soil backlash. How fast the laggard states take to figure this out is not clear, but the electorates aren't going to wait forever.

Govt makes wrong diagnosis

Curbs on NPPA good, but distrust of the market is the real malaise

THE UNION GOVERNMENT has created a standing committee chaired by the member (health), NITI Aayog, that will make recommendations to the drug-price regulator, the National Pharmaceutical Pricing Authority (NPPA), on the prices of drugs and medical devices and will also take up, *suo motu* or on request from the government, matters relating to such pricing. Given how the NPPA, over the past few years, seemed to be guided more by an anti-pharma-MNC agenda than any lofty regulatory ideal, it is good that the government saw fit to place a check on it. But, this doesn't really address the malaise—a deep distrust of the market and of competition being able to check price gouging (mostly imaginary) by pharmaceutical companies. Indeed, it perpetuates that view.

To be sure, there was a crying need for a change from the NPPA regime. The body had arrogated sweeping powers onto itself in the past few years and behaved in a manner that forced medical-device majors to pull out many of their cutting-edge offerings from the market. Though prices of most drugs in India are amongst the lowest in the world—because of the large pool of manufacturers offering a wide array of drugs/devices—and almost a quarter of the drugs in the country are under various forms of price capping as they feature in the National List of Essential Medicines (NLEM), the NPPA used its power under the Section 19 of the Drug Price Control Order indiscriminately to bring more drugs and devices under price-control. This was despite the fact that the law permitted the regulator to use this provision only under "extra-ordinary circumstances"—say, an epidemic or war—and for "public interest". But, the NPPA brazenly applied caps on knee implants using Section 19. The NPPA even used this to order cuts in prices of formulations that weren't under the original price control schedule—indeed, such arbitrary regulation by NPPA had forced the government's hand in September 2014, with the department of pharmaceuticals forcing the authority to remove certain caps and desist from unilaterally imposing caps on non-essential medicines. A measure of NPPA's egregious mishandling is provided by the fact that a bulk of industry's appeals against the NPPA's price control orders have been upheld by the government in the past few years.

The fact that the NPPA has not been scrapped and merely defanged shows the government shares the NPPA's irrational distrust of the pharma industry. This has been to the detriment of Indian patients because, thanks to the oppressive price caps, the pharma industry has increasingly become export-focused. Continuing with a drug-price-capping regime, even with checks on the regulator's powers, does nothing to reduce the potential of arbitrary regulation. Indeed, the supposed independence of the NITI Aayog makes it easier to lend price-capping an air of credibility even when it serves the cause of political expediency through its decisions.

HackJob

Sibal's presence at an event where unsubstantiated claims were made about EVMs was quite unseemly

AT A LONDON "hackathon", a self-proclaimed Indian cyber expert, Syed Shuja, held a press conference claiming electronic voting machines (EVMs) can be hacked and that the 2014 parliamentary election was "rigged". He demanded an investigation into this and said he had fled India in 2014 because he felt threatened because of his knowledge of the alleged "rigging". EVM-tampering is a hotly debated topic worldwide, but somehow has become a frequent feature of political vitriol in India, right from the year they were introduced. But, what has made Shuja's press conference especially controversial is the fact that Congress leader and former Union minister Kapil Sibal attended it.

The optics of a senior Congress leader lending his heft to an event where an unsubstantiated claim is made—the event organiser has distanced itself from Shuja's presser—are bad enough. But what is really damaging for democracy in the country is that the said leader attended an event that puts the Election Commission of India (ECI), a statutory body whose political independence is crucial to the exercise of democracy in India, under a cloud. Calling it a "motivated slug fest", the ECI has stressed that it "firmly stands by the empirical facts about foolproof nature of ECI EVMs deployed in elections in India". In June 2017, the ECI arranged for an EVM-hack challenge where political parties were asked to demonstrate how the machines can be tampered with. Just two parties—Nationalist Congress Party and Communist Party of India (Marxist)—turned up, and even they did not participate. ECI has also made it mandatory for every EVM to have Voter-Verifiable Paper Audit Trail (VVPAT), to ensure there is no tampering. Such sustained attacks on the credibility of the EVMs without efforts to prove that they can be hacked—the Aam Aadmi Party demonstrated a hack in the Delhi Assembly, but that was not an ECI machine—cause an erosion of people's trust in democratic processes and not just the machines. Parties must be ready to demonstrate that the ECI's machines can be hacked, or just stop hurling dirt at the EVMs in the hope of politico-electoral gains.

ARTIFICIAL INTELLIGENCE

LAW IS NOT BLIND WHEN JUDGES SEE CASES THROUGH THE LENS OF MEDIA OR BASED ON FACES OF SOME SENIOR LAWYERS, AND NOT BASED ON LAW AND FACTS SUPPORTED BY PROOF

Using AI to transform judiciary

AKHIL GUPTA

Vice chairman, Bharti Enterprises

Views are personal

INDIA AS A true democracy takes immense pride in the separation of its executive and judiciary. However, it is a general perception that the judicial system today suffers from various flaws—nepotism, favouritism, political pressures, media verdicts, public opinions, ego issues, besides alleged instances of corruption at various levels.

A major problem in our judicial system today to my mind is the fact that the influence of media reports and perceived public opinion weighs heavily on judges. As a result, the doctrines of 'law is blind' and that 'an accused is deemed innocent till proven guilty' seem to have been replaced by the principle that relief to an accused (say by way of bail) in a media reported case can only be considered when the particular news is no longer a major news.

This situation prevails particularly with respect to high profile personalities accused for crimes ranging from criminal offences to economic offences to sexual misconduct and harassment, where the accused are pronounced guilty by media. It is generally perceived that the chances in cases involving such known personalities of getting a fair and unbiased hearing (at least at lower levels of judiciary) are low.

Another serious problem that is well known is the exorbitantly expensive legal system where the legal fees of certain prominent lawyers have gone through the roof, mainly because it is believed that an 'appearance' by them can get the desired judgment or relief. For many individuals, and even corporates, legal remedies are getting beyond their means because of such high costs.

Makes me wonder as to what is then the purpose of asserting that 'law is blind' when the judges have to see cases through the lens of media or based on faces of some senior lawyers, and not based on law and facts supported by proof. Add to these the huge pendencies of legal cases before the judiciary at all levels and across the country and it becomes fairly apparent that our judicial system, if not broken, is clearly crumbling.

If one is to carefully analyse the root cause for the issues pointed out above, there would only be one conclusion. And that is that all these problems and imperfections are caused due to the 'human angle' in the judiciary. Lack of human resources/capabilities and mixing human feelings and emotions with law and proofs cause the problems that we see in our judicial system today.

The solution I propose is to replace 'judges' by 'cyber judges', i.e. computers using AI. It might take some time, but it would be relatively simple in this age of AI, where reported cases have already been brought online, as reported by a New York-based law firm that has started using AI to draft petitions and arguments. The proposal I have is that, for all cases, both sides must file all arguments and pleadings with citation of law as well as case laws online before the "cyber judge" for its consideration, along with relevant proofs. The two sides should be given an opportunity to file their rebuttals of the assertions made by the other side.

> This unbiased judiciary will instill confidence in investors and citizens that they will get fair and prompt relief where deserving

Based on arguments and counter arguments, the 'cyber judge' would pronounce the decision with complete reasoning, after appreciating all evidence, arguments, counter arguments, laws and legal cases cited. It is my belief that such a decision would qualitatively be as good as what one would expect from a totally impartial judge.

The advantages will be several:

■ In one stroke, the legal professionals will get judged and recognised on their abilities and intelligence as a lawyer and the hard work put in preparing a case and not on 'reputation', seniority or the ability to mould arguments, presentations and pitches according to the personal preference or learnings of a judge. This would mean the end of the exorbitant legal fees charged today by seniors who quote millions of rupees for a mere 'appearance' in a matter of 'admission of a petition' or 'stay of proceedings'—even if the case is adjourned or does not come up for hearing.

■ No influence of media reports and trials or propaganda carried out by interested parties—whether they be religious groups, political parties, powerful lobbies or corporate rivals.

■ No scope for nepotism, favouritism or corruption.

■ No more pendencies as the 'cyber judges' would be able to work 24x7 without any fatigue.

■ A radical reduction in the cost of maintaining judiciary, including freeing of very expensive and prime properties occupied by thousands of courts and lordships.

■ Total elimination of government influence over judges.

■ In cases of differing judgments of various regional courts (which could be there because of different precedents in specific states on the same matter), the issue and all cases involved shall be automatically collated and transferred to the Supreme Court for a final judgment. Over a period of time, the time taken for a final pronouncement on any issue would be shrunk beyond what can be currently imagined.

■ The tendency in recent times of courts assuming authority which, as per the Constitution, lies with Parliament, would be eliminated. The separation of judiciary and executive would be truly restored with each acting within the boundaries prescribed by our Constitution.

■ The distinction between cases involving issues of 'facts' vs 'law' would be clearly made, thereby ensuring that issues involving facts would be finalised at 'lower' level only.

■ The prevalent practice of 'remanding' the case to lower authorities or courts to reconsider (which basically amounts to kicking the ball in someone else's court) would be totally eliminated. The pendencies of cases, accordingly, will seriously reduce.

■ The man hours, petrol and diesel and paper saved will have a very positive impact on our economy and environment.

■ Most importantly, the unbiased judiciary will instill tremendous confidence in investors and citizens (particularly in litigation against the government) that they will get fair and prompt relief where deserving without the fear that the judge would feel uncomfortable giving a large relief which might impact government revenue. This would be a major step towards 'ease of doing business'.

In summary, I believe, based on a factual assessment as above, that lack of human intervention in judicial process will eradicate existing follies in our judicial system.

Radical as it may sound, I believe there can be no better application of AI than application in the judicial system, especially for large democracies like ours where large-scale litigation and pendencies of cases are a norm, which are thus resulting in gross injustices to citizens.

Further trouble for Karnataka's ore

Govt-owned miners can get their leases extended in perpetuity without auctions, whereas captive miners and merchant miners cannot. This preference for govt-owned miners compromises efficiency and leads to leakage of govt revenue

DHIRAJ NAYYAR

Chief economist, Vedanta Ltd

LAST MONTH, NMDC Ltd, a government-owned merchant mining company, decided to suspend iron ore mining operations from its Donimalai mine after a disagreement with the government of Karnataka over commercial terms. The decision has further exposed the distorted state of the market in the mining sector of Karnataka.

Already, the Supreme Court has imposed several restrictions on the sale, pricing and export of ore from the state. The totally dysfunctional state of the market is best highlighted by the fact that, despite cutting its production in the state by half, NMDC has actually reduced the sale price of iron ore post closure of Donimalai. There is an urgent need to end all distortions and restore a competitive market.

At the heart of the matter in the Donimalai closure is the creation of a non-level playing field on the issue of mining rights. Government-owned miners can get their leases extended in perpetuity without auctions, whereas captive miners and merchant miners cannot. In effect, this preference for government-owned miners creates an environment of entitlement, compromises efficiency and leads to leakage of government revenue. The reason for NMDC's peeve with the government of Karnataka is that the extension by nomination, for a period of twenty years beyond 2018, came with a condition—an 80% premium on the sales price to be paid to the state government.

Apparently, the state government took a cue from the successful auctions of other mines at around the same time which yielded handsome premiums, often of over 100% (129.9% was the highest). Normally, by statute, the state government is paid 15% of ex-mines' price as royalty by the buyer of iron ore and 14.8% of ex-mines' price by the miner (including contribution to the District Mineral Foundation). The premium is additional bounty.

But why were bidders paying such high premiums? The fact is that the bidders are producers of steel for whom iron ore is an essential raw material. To maximise profits, it makes sense for them to purchase iron ore at the lowest cost. So, acquiring a captive mine and paying a greater than 100% premium is economically rational for a steel producer as it gives them some amount of (but hardly all) assured and cheap supplies. For a merchant miner like NMDC, paying a high premium makes little sense because it doesn't have its own steel business to feed.

> The steel industry is also protected from import competition by the government through a variety of measures including anti-dumping duties

It is difficult to find such aberrations in any other major steel producing country. Elsewhere, in countries like Japan and China, steel producers simply buy iron ore from merchant miners (at import parity prices), either domestically or via imports and still produce steel profitably and efficiently. Karnataka's steel mills are in any case reaping windfall benefits because of the restrictions imposed on the sale of Karnataka's iron ore outside the state. Steelmakers are buying their raw material at an artificially low ₹3,000 per tonne compared with ₹6,000 per tonne paid by competitors in, say, Korea or Japan. It should also be noted that the steel industry is protected from import competition by the government through a variety of measures including anti-dumping duties.

What is best for the economy and for government revenues is a competitive market in iron ore and in steel. For this, there needs to be a level playing field for private sector and public sector companies in merchant mining, a level playing field between merchant miners and end users (i.e. an end to captive mining) and a steady reduction of protection to create a globally competitive steel industry.

The consequences of the alternative scenario are serious. Because of improper pricing and discriminatory allocation (such as the nomination for PSUs alone), there will be insufficient investment in mining which will ultimately lead to scarcities. It will also lead to a loss in government revenue as royalties will decline. The steel industry will not aspire to global competitiveness and, since steel is such a crucial input to other sectors of the economy, it will inject its own inefficiency into a plethora of sectors.

In any scenario, for policymakers and, indeed, courts, the interests of the Indian economy as a whole must take precedence over all other considerations. That requires a functioning free market with regulations that prevent any crossing of the boundaries of law.

LETTERS TO THE EDITOR

Adverse unity

Political entities preach the importance of love and values and vouch for preserving the sanctity of national institutions. The practice is often found wanting, as leaders are more than willing to form opportunistic/post-poll alliances, driven by vested interests, usually lacking a constructive vision towards public welfare. Further, baseless allegations levied on the election regulators and the machinery, time and again, derogate the democratic sentiment. While winning polls is important, establishing a political culture aimed at resolving chronic issues confronting the socio-economy, to preserve public cheer and empathy in the long-term, is a prerequisite. A federal structure demands collaboration to prioritise the agenda of development. Unity and stability, coupled with a healthy attitude to conclusively brainstorm on issues of national importance, is prudent to fulfil the larger goals. Instead of expending time/effort towards putdowns, caution must be exercised in words. Bizarre statements and lack of decorum and shouldn't become a norm

— Girish Lalwani, Delhi

The Walking God

The demise of 111-year-old Siddaganga Matha seer, Shivakumara Swamiji, also known as 'Nadedaduva Devaru' (Walking God) has saddened millions of devotees. The much-revered seer was known for his humanitarian work in education and for providing food and shelter to the poor and vulnerable. The Sree Siddaganga Education Society, which he started, grew from humble beginnings into a large organisation of 125 educational institutions serving millions of students and parenting over 8,000 at the Siddaganga Gurukula alone

— Ravi Chander, Bengaluru

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ILLUSTRATION: ROHNIT PHORE

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UBI can be a *brahmastra*

It will give immediate relief to the target beneficiaries and force the government to rationalise subsidies

WITH JUST ABOUT six-eight weeks to go before the code of conduct for India's general elections—due in April -May 2019—comes into force, the BJP-led government would be facing a serious dilemma. It has the option of announcing some big-ticket schemes, with conspicuous, near-term benefits for the targetted population. Else, if the government is feeling confident enough, it will approach the elections with its current scorecard. However, the initiation of some reforms with potential gains only over the long-term are unlikely to cut ice in the pre-poll season.

This dilemma, understandably, would have grown larger for the BJP after the electoral reverses the party suffered in the recently-held Assembly elections in key states. In the run-up to these Assembly elections, there were four key factors (perception that "upper caste" voters were unhappy; anti-incumbency; the narrative of rising unemployment; and farmers' woes) that got highlighted—these may have some relevance for the upcoming general elections, too. The ruling party may be right in its assessment that the first factor has been put to rest after the promulgation of the new law providing 10% reservation in jobs and education for "economically weaker sections" from the general category.

On the second factor, only one uninterrupted term in power (as is the case with the present BJP-led government at the Centre) should not spur anti-incumbency. In contrast, out of the three Hindi heartland states where the BJP lost the Assembly elections, two (Madhya Pradesh and Chattisgarh) had been under BJP rule for 15 years—that undoubtedly would have been fertile ground for anti-incumbency.

The BJP should be more worried about farmers' woes, and the narrative on growing unemployment. Perception of a poor performance on these two factors can dent the party's claims of its ability to provide efficient governance. Now, given that job creation is more of a long-term process, there is little that the government can do on this front before the elections kick off.

It is on farmers' woes where the government can opt to play the short-term game—say, via farm-loan waivers. This would be especially tempting in the backdrop of the Congress party's victory in Rajasthan, MP and Chattisgarh assembly elections recently where the party had made farm loan waivers an important poll issue. However, the government may conclude—rightly so—that farm loan waivers may not help much for the upcoming general elections, especially when the Congress party, too, is generously announcing such schemes. It may also be of some consequence that farm loan waivers are inequitable and highly inefficient, are unable to help the really distressed farmers, and are economically disastrous for the government's finances and for the banking system.

> **If fertiliser and oil subsidies are withdrawn, ₹100,000 cr can be freed up. Halving the MGNREGA budget would add ₹25,000 crore**

In this context, a universal, or partial, basic income can be a measure that could turn out to be economically and socially sound. A rough arithmetic would look as follows. Let us say the government decides to pay ₹150 per month per head (implying ₹750 per month for a family of five) to every Indian. Going by poverty line estimates as per the Rangarajan committee (at monthly income of ₹1,410 per head), this may imply a solid 11% boost to someone at the poverty line. About 30% of Indians who live below the thus-defined poverty line stand to gain meaningfully if such a scheme is rolled out. For another 20-25% of the population, too, this income may not be insignificant.

At this level of income, this scheme will require ₹2.4 lakh crore annually. If state governments are convinced to foot, say, 20% of the bill, and if the affluent (say, the 3 crore four-wheeler vehicle owning families) are excluded from the scheme, then the burden on the Union government works out to be ₹175,000 crore.

Funding can initially come from the curbing of some existing subsidies that are incorrectly targetted, suffer from extreme misallocation, and have relatively less political costs. If subsidies on fertilisers and petroleum products are withdrawn, then ₹100,000 crore can be freed up while cutting the MGNREGA budget by half would add another ₹25,000 crore to the kitty. The balance ₹50,000 crore can be raised via additional disvestment of government stake in PSUs. However, disinvestment can only be deployed as a temporary measure since selling capital assets to fund revenue expenditure may not be a sound step economically, though this is besides the point here. There can be other ways to fund this—with other sources of funds, or a slightly higher share of burden taken on by state governments, or a smaller scheme size, or some bump up in the fiscal deficit glide path which, again, will be bad economics.

The key point is that, given the relatively slow pace of poverty alleviation in the country since Independence, the most populous democracy in the world does have an obligation to strengthen social security for its poor and lower middle-class population. Second, as this scheme evolves, the government will feel pressurised to revamp the highly inefficient, piecemeal and disparate subsidy schemes (such as the food subsidy of ₹160,000 crore) that the country has had for so long, and reallocate funds towards the income support scheme. Similarly, there will be an increased urgency to expand the taxpayer base, and to make direct taxes more progressive in nature to raise additional funds.

A universal, or otherwise, income scheme can be amongst the most people-oriented and ambitious schemes that India has seen. It can be a big bang, long-term oriented scheme without causing much disruption. It'll certainly have a favourable election impact cutting across caste-based voter groups. The BJP's campaign managers may even take this as an effective tool to blunt the impact of the coming together of Samajwadi Party and Bahujan Samaj Party in Uttar Pradesh. Also, it may not be too difficult to implement logistically due to the deep inroads made in the last four years by the JAM trinity of Jan Dhan accounts, Aadhaar enrolments, and mobile penetration.

Reconsider angel tax

VINTI AGARWAL
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View are personal

The Budget is an opportunity to address the start-ups' pain points on this tax

THE LAST COUPLE of months, the media has been agog with stories of notices received by many start-ups as well as angel investors on clearing the taxes on the angel-funding raised by the former. Angel tax was introduced in the 2012 Budget by the then finance minister Pranab Mukherjee to deter the generation and use of unaccounted money. Section 56(2) (viib) was added in the Income Tax Act 1961, that provided that a resident company issuing share at a premium is subject to tax under the head 'income from other sources.' The income generated is calculated as the difference between the consideration actually paid and the fair market value of the said share There have been five major issues raised by start-ups as well as investors on taxing of angel funding.

First, there is disagreement on the concept of 'fair market value'. It is often difficult to determine the fair market value of the shares when the start-up is at its conceptual or development stage. Valuation of a start-up is generally determined by certified merchant bankers or chartered accountants based on company's projected earnings as well as negotiations between the investors and the start-ups. However, an issue arises when start-ups are not able to match their initial projections and, hence, Assessing Officers, who have been given wide discretion under the Income Tax Act, reject the original valuation and reduce the 'fair market value' at the time of assessment, due to which premium amount on which tax is levied is rises. Further, Section 56(2) (viib) only applies to resident investors, and thus start-ups may shift to foreign investors and may ultimately be foreign-owned.

Second, the process lfor approval under Section 56(2) (viib) is criticised as cumbersome. The Central Board of Direct Taxes, in May 2018, issued a notification granting exemption to start-ups under Section 56(2) (viib) if they have approval from the Inter Ministerial Board of Certification as per the notification issued by ministry of commerce and industry in April 2018. According to the earlier notification, a start-up shall be eligible to apply for approval under Section 56(2) (viib) only if its total investment, including funding from angel investors, does not exceed ₹10 crore. Further, the investors subscribing the shares of the start-up must either have an average income of ₹25 lakh or more for the preceding three financial years or must have a net worth of ₹2 crore or more in the preceding financial year. For availing of such exemption, a certification of valuation by a merchant banker is required. While the notification purportedly gives an exemption, the eligibility conditions and the procedure prescribed make it too cumbersome.

Third, the procedure does not provide for any time period within which approval needs to be granted and, hence, start-ups can face delay in getting approvals. This has an adverse impact, especially when start-ups are nascent and struggling to grow their business.

Fourth, as per the notification issued by DIPP, to qualify as a start-up, a company has to be less than seven years old and must never have had an annual turnover of more than ₹25 crore. Further, it must not have received more than ₹10 crores in total from angel investors. From this, it is clear that start-ups that did well in any of their first seven years will not get an exemption. Further, it also encourages start-ups to enter into arrangements showing less annual turnover for seven years.

Fifth, the obligation of depositing 20% of the total tax demand by start-ups for filing appeal against the order of the Assessing Officer before CIT (A) needs to be relooked. It is important to note that tax notices to some start-ups demanded for around 50% of the money given by angel investors—20% pre-deposit of such substantial amount will affect the start-ups drastically.

The Union Budget is will be out on February 1, and the government should reconsider the above provision in the Budget. It should strike a balance between deterring money laundering as well as safeguarding the interest of young entrepreneurs. A proper method of valuation of a start-ups must be determined, accepted by entrepreneurs, investors as well as the government. Next, the procedure laid down for claiming exemption under Section 56(2) (viib) must be simplified. And last, the 20% pre-deposit condition for start-ups for filing an appeal must be made flexible so that they are not adversely impacted.

India set to get a steel boost

Global and domestic factors have decked the cards in the favour of the Indian steel industry

RAKESH SINGHAL
Consultant, Steel Research & Technology Mission of India, Ministry of Steel

STEEL PRODUCTION IN India grew by 3.1% to 103 million tonnes and consumption increased by 7.9% to 90.7 million tonnes in FY 2017-18. India is currently the third-largest producer of steel after China and Japan, and is poised to become the second-largest producer soon. An increase in domestic demand from sectors like infrastructure, real estate and automobiles is anticipated. The government has mooted a plan to boost domestic steel capacity to 300mt per annum by 2030. However, this growth will have to be supported by private sector companies and will also require import of foreign technology and foreign direct investment (FDI).

A recent IMF projection pegs India's GDP to rise by 7.4% in 2018 as compared to 6.7% in the previous year. The sustained growth shows that major steel consuming segments will benefit. These include sectors such as construction, real estate, capital goods, consumer goods, automobiles and the energy sector. Industrial corridors will also help improve India's connectivity, further reducing costs involved in the logistics required for transportation across Indian states.

Today, countries relying on the US as an export market are considering different avenues for their exports largely due to the import duty imposition. This, in turn, may lead to an oversupply of steel in the global market pressurizing the international steel prices outside of the US. The US imposed 25% and 10% import duty on foreign made steel and aluminium respectively in March 2018, for national security reasons and to protect the US from cheap imports.

Up till now, the Indian steel sector has been comparatively inward-looking; however, it is likely to be increasingly impacted by developments in global steel, raw material and energy spaces. Factors such as substantial surplus of steel scrap in China in the future, shale gas gradually emerging as a cheaper source of fuel, innovations in steel driven through emission norms for end- use products, firmer environmental regulation impacting feasibility and locations of new capacity and more are likely to be influential from a medium- to long-term perspective in terms of the amount, speed and system of domestic growth.

The low per capita consumption of around 65 kg in India, compared to the world's average of 214 kg, and an encouraging government stance towards the steel industry, all contribute to India being an attractive location for steel. Additionally, rapidly growing demand, with particular growth in demand from certain sectors such as construction and auto, economising of domestic steel demand and decline in steel capacity in China that is expected over the next decade are further expected to act in the country's favour.

Currently, the steel being used in real estate contributes only 15-20% of total steel production in India. However, Indian real estate sector is likely to be most benefited due to rapid urbanisation which is expected to reach 543 million by 2025. Additionally, growing economy is also driving demand for commercial, hospitality and retail space.

The demand for affordable housing further enabled by the various government schemes and initiatives and the need to grow cities vertically and implementation of regulations regarding earthquake resistance and building strength further leading to an increase in steel intensity in construction are also likely to create a huge impact in the industry. Government introduced initiatives such as Pradhan Mantri Awas Yojna-Housing for All, Sardar Patel Urban Housing Mission, 100 Smart Cities Mission (by 2022), Pradhan Mantri Gram Sadak Yojna, Urban Infrastructure Development Scheme for Small & Medium Towns (UIDSSMT), National Heritage City Development and Augmentation Yojana (HRIDAY), Bharatmala project, 24x7 Power for All initiative (by 2019), Development of Industrial Corridors & National Investment & Manufacturing Zones, 75,000 MW Clean-Energy initiative (by 2022) etc. are expected to drive further demand for steel in India.

The macro trends affecting growth in real estate include the increasing urbanisation, overall growth in household income, growth in the services sector such as the IT boom which further adds to the demand for office spaces. The growth of the steel sector is perfectly accompanied by the growth of the corporate environment and the demand for office space as well as urban and semi-urban accommodations.

Megacities (with population more than 10m) is expected to surge from 31 in 2016 to 41 in 2030. Similarly, the cities with a population of more than 5,00,000 will increase 31% to 1393 by 2030, according to World Cities in 2016, United Nations.

Despite global overloading, impending growth in domestic demand is likely to continue to energize ambitions in the Indian steel landscape. The steel intensity curve, socio-economic indicators together with announced directional plans of the Government, all show potential to multiply the size of the steel industry in India. The Make in India initiative has also been propelling the growth of the industry.

Considered as a starting step towards shaping construction is the concept of pre- casting. Moving construction offsite can likely improve efficiency, and it has been observed that "Precast & Pre-fabrication" has the potential to emerge as the one stop solution covering Design, Engineering, Manufacturing, Assembling and Project Management—thereby, pushing productivity up significantly.

It has been observed that "Precast & Pre-fabrication", in a controlled environment, can possibly result in the three elements mentioned above. This is the future of construction technology in India, if India must match the pace of urbanisation.

Currently in a very nascent stage of precast construction, India has only 2% of total construction done through precast technology. The application of precast has primarily been seen in metro-rail work (precasted segments, girders) and mass housing projects.

India is also preparing itself for a new technology, more seen in Singapore, called PPVC (Prefabricated Prefinished Volumetric Construction). In this approach, the pre-cast elements are finished in all aspects, be it wall painting or fittings of accessories in rooms, bathrooms etc.

Riding on the growing demand from ancillary industries and the supporting macro-economic factors, a growth in demand and further price stability is expected for steel industry. India has always played a vital role in the global industry and is likely to further strengthen its position with the backing of the government and the consistent growing demand.