ECONOMY

GOLD	RUPEE	OIL	SILVER
₹32,500	₹70.18	$52.28	₹39,350

Indian basket as on January 1, 2019

SENSEX: 35,891.52 ▼ 363.05 NIFTY: 10,792.50 ▼ 117.60 NIKKEI: 20,014.77 ▼ 62.85 HANG SENG: 25,130.35 ▼ 715.35 FTSE: 6,684.72 ▼ 43.41 DAX: 10,533.58 ▼ 25.38

International market data till 1900 GMT

AIRLINE'S SHARES PLUNGE 6.16%

Jet defaults on loan repayment, ICRA downgrades to D category

ENS ECONOMIC BUREAU
MUMBAI, JANUARY 2

FUND-STARVED Jet Airways has defaulted on payment of interest and principal installment to a consortium of banks led by State Bank of India (SBI) as the airline's initiatives to raise a Rs 1,500 crore short-term loan in order to meet its working capital requirement and payment obligations failed to materialise on time. Rating agency ICRA on Wednesday downgraded the airline's Rs 10,963 crore loan and debenture ratings to the 'D' category Instruments with 'D' rating are in default or are expected to be in default soon. Jet Airways shares plunged 6.16 per cent to Rs 263.75 on the BSE following the delay in loan repayment.

"This is to inform you that the payment of interest and principal installment due to the consortium of Indian banks (led by State Bank of India) on December 31, 2018 has been delayed due to temporary cashflow mismatch and the company has engaged with them in relation to the same," it said in a stock exchange filing. The company's liquidity position is stressed, with operating losses, high debt levels and a negative networth

According to ICRA, the ratings downgrade considers the delays by the company in the payment of the interest and principal installment due on December 31, 2018 due to cash flow mismatches. "There have been delays in the implementation of the proposed liquidity initiatives by the management, which have aggravated its liquidity. The company has already been delaying its employee salary payments and lease rental payments to the aircraft lessors," it said.

Though the airline has been in discussions with banks for a short-term loan, cautious bankers asked for a concrete plan for the revival of the airline after they burnt their fingers in Vijay Mallya's Kingfisher Airlines episode. Naresh-Goyal-run airline's efforts to bring in an investor has not worked out so far. The Tatas had evinced interest to buy stake but the talks got stuck over various thorny issues. "Banks asked for revival plan and more collaterals," said a banking source.

The airline has large debt repayments due over December 2018 to March 2019 (Rs 1,700 crore), FY2020 (Rs 2,444.5 crore) and FY2021 (Rs 2,167.9 crore).

Credit profile of the company continues to remain stretched, characterised by negative networth and high leverage. "Jet Airways continues to have negative networth due to accumulated losses and diminution in the value of its investments in its subsidiary Jet Lite (India) Limited," ICRA said.

Furthermore, the liquidity strain has aggravated due to delays by the company in implementation of its liquidity initiatives. As on September 30, 2018, the company had gross debt of Rs 8,411 crore, as against Rs. 8,403 crore as on March 31, 2018. This is despite the receipt of lease incentives during June 2018 and advances from JPPL in October 2018.

The debt levels are, however, expected to increase in the near term because of the ongoing stress on profitability, unless the company is successful in its liquidity initiatives. "Overall, till the company starts reporting profits on a sustained basis, the debt levels are expected to continue to remain high," it said. It had posted a loss of Rs 1,297 crore on a revenue of Rs 6161.15 crore for the quarter ended September 2018.

The company had already been delaying payments of employee salaries and lease rental payments to the aircraft lessors on account of the liquidity stress. In the absence of adequate cash accruals, the company will be required to refinance its repayments falling due.

"While it has been undertaking several liquidity initiatives, timely funds tie-up is a key rating sensitivity. Timely implementation of proposed liquidity initiatives by the management to alleviate its liquidity strain would remain critical to its credit profile," ICRA said.

The company is undertaking various liquidity initiatives, which includes, among others, equity infusion and a stake sale in Jet Privilege Private Limited (JPPL), and the timely implementation of these initiatives remain critical to its credit profile. The company has already renegotiated its maintenance contracts with effect from January 01, 2019, with estimated savings of $ 100 million annually. The company has also planned several initiatives aimed at significant reduction in costs.

However, the cash flows would largely depend on the jet fuel prices and the ability of the company and the industry to pass on the increase through increase in fares. Of the 124 aircraft operated as on September 30, 2018, 16 are owned, providing opportunities for monetisation. A sale and lease back transaction for the same would help reduce the debt burden, rating firms said.

EXPLAINED E. Airlines' financial flexibility depends on fuel prices

EVEN AS the airline managed to contain its costs to an extent, Jet Airways' financial flexibility depends largely on fuel prices – that have subsided in the last few months – and the opportunity to increase fares in a highly competitive sector. On Tuesday, the price of aviation turbine fuel was cut by Rs 9,990 per kilolitre to Rs 58,060.97 per kl.

The two consecutive reductions have brought jet fuel rates to their lowest levels in a year providing much-needed relief to cash-strapped airlines. Further, the airline's ability to repay its debts also depends on its ability to raise fresh funds.

On the table: Lower GST for homes, MSME relief

AANCHAL MAGAZINE
NEW DELHI, JANUARY 2

A LOWER rate of Goods and Services Tax (GST) on under-construction residential properties from the current rate of 12 per cent to 5 per cent, extension of composition scheme for small service providers and a higher exemption threshold for micro, small and medium enterprises (MSMEs) will be discussed in the upcoming GST Council meeting on January 10.

The six-member ministerial panel formed to look into issues being faced by MSMEs under GST will meet before the Council meeting on January 6 to finalise its recommendations, a government official said. "A lower GST rate for under-construction residential properties is being proposed since the government believes that benefits of input tax credit availed by builders have not been passed on to consumers as lower prices. So, the Council will discuss a lower rate for it in the meeting," a government source said.

The Council will also discuss a proposal for uniform rate on lotteries that are currently taxed at 12 per cent for state-run lottery and 28 per cent for state-authorised lottery. The government has been focusing on bringing down GST rates for the beleaguered construction sector, including a rate cut on cement from 28 per cent. In the previous 31st GST Council meeting held on December 22, the Council cut rates for 23 goods and services but stopped short of reducing rate on cement because of the huge revenue cost associated with it. Bringing cement from the 28 per cent slab to 18 per cent slab would mean a revenue loss of about Rs 13,000 crore a year.

At present, after one-third abatement of value of land (outside the ambit of GST), a 12 per cent GST is levied on under-construction property or ready-to-move-in flats where completion certificate has not been issued at the time of sale. No GST is levied on properties for which completion certificate has been issued at the time of sale. In the run-up to elections this year, the focus is also on providing relief to MSMEs in order to ease their compliance burden. The Council will look into recommendations of the ministerial panel to raise the exemption threshold for GST from Rs 20 lakh at present to between Rs 20-75 lakh, a move which will remove about a fourth of the total registrants under GST but will have minimal revenue impact.

As per official data, about 31.12 per cent of the total 1.2 crore registrants under GST have annual turnover of Rs 20 lakh to Rs1.5 crore. A composition scheme for small service providers, in line with the existing composition scheme for traders, manufacturers and restaurants where a low nominal tax rate is levied, is also being worked upon by the law committee and fitment committee of the GST Council.

The inclusion of service providers under the composition scheme, however, is likely to meet with some resistance from the states who had opposed its inclusion earlier as well due to concerns regarding low compliance rate as has been observed in the case of traders and manufacturers. "Value addition for services sector is much higher than that for manufacturing or trading and therefore, higher revenue implications. This is likely to be opposed by some states," a senior government official said. The Council will also take a view on levying calamity and disaster cess under GST.

'TAX BENEFITS NOT PASSED TO CONSUMERS'

- **Push for lower GST rate on under construction residential property as the government believes that benefits of input tax credit availed by builders have not been passed on to consumers**
- **Providing relief to MSMEs in order to ease their compliance burden**
- **Discussion on a proposal for uniform rate on lotteries that are currently taxed at 12 and 28 per cent**

POLICY WATCH
INFOTECH

IT ministry officials, legal experts to discuss social media rules amendments

Draft rules announced are meant to replace rules notified back in 2011

ENS ECONOMIC BUREAU
NEW DELHI, JANUARY 2

WITH RISING concerns over privacy and free speech pertaining to the draft Information Technology (Intermediary Guidelines) Rules 2018, to govern social media platforms in the country, senior officials the Ministry of Electronics and Information Technology will meet legal experts and privacy advocates on Saturday to discuss various issues "relating to making social media safer", a senior government source said on condition of anonymity.

Last week, the IT ministry announced that it would hold public consultations on the draft rules that it announced on December 24, and are meant to replace the rules notified back in 2011.

It said that the consultation process started with inter-ministerial discussions, followed by talks with major social media companies such as Facebook, Google, Twitter, Yahoo and WhatsApp, apart from associations representing intermediaries.

The Union Ministry for Electronics and Information Technology (MeitY) announced Monday that it will hold public consultations on the draft Information Technology (Intermediary Guidelines) Rules 2018.

The Indian Express had earlier reported that the government's proposed amendments to rules under Section 79 of the IT Act make it mandatory for online platforms to "proactively" deploy technology to enable access to content seen as "unlawful".

And that the measures proposed include breaking end-to-end encryption so that the origin of messages can be traced.

The government had clarified saying that "instances of misuse of social media by criminals and anti-national elements have brought new challenges" for law enforcement agencies, including "inducement for recruitment of terrorists, circulation of obscene content, spread of disharmony, incitement of violence, public order, fake news, etc".

It also referred to incidents of lynchings reported in 2018 "mostly alleged to be because of fake news/ rumours being circulated through WhatsApp and other social media sites".

The social media platforms, the government said, "are required to follow due diligence" under Section 79 of the IT Act.

They have to "ensure that their platforms are not used to commit and provoke terrorism, extremism, violence and crime".

Section 79, it said, "elaborates on the exemption from liabilities of intermediaries in certain cases", including that the "intermediaries must observe due diligence while discharging their duties, and also observe such other guidelines as prescribed" by the government.

The government's decision to bring amendments had been slammed by the Opposition which had termed the move as one that would violate privacy of individuals, and claimed that the government has become a "Peeping Tom" and that "violating the privacy of people has become the norm".

The meeting with legal experts on January 5 will be followed by a one-hour Twitter session that would be open to the larger public for discussion on the matter, the official cited above said.

'Farm loans: Many states don't have additional fiscal space'

WHILE SEVERAL states have announced farm loan waivers over the last two years, a report prepared by CARE Ratings shows that barring a few, many states do not have the additional fiscal space to implement the same without breaching the 3 per cent fiscal deficit target. The ratings agency said that states that have announced farm loan waivers would have to enhance their revenue generation capacity or cut down on expenditures to address the distress

₹33,724 cr

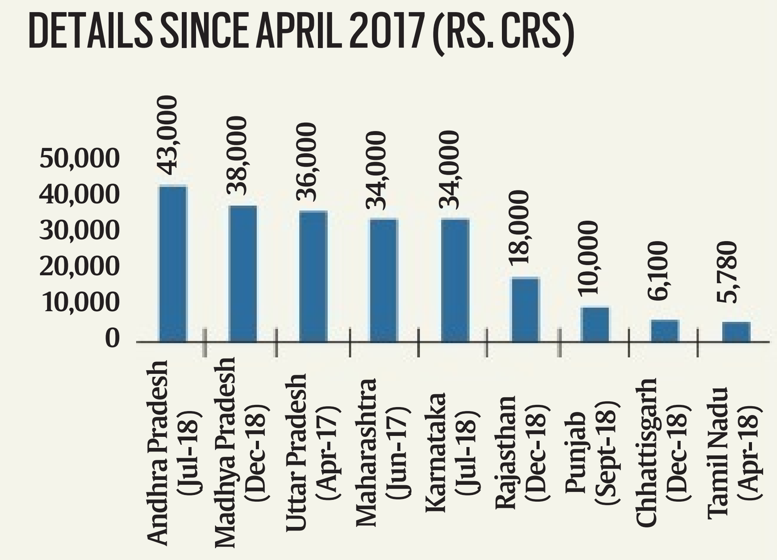
Additional fiscal space with Maharashtra for FY19, which announced Rs 34,000 crore loan waiver.

STATES' FISCAL SPACE

States	Additional fiscal space (Rs cr)	States	Additional fiscal space (Rs cr)
Maharashtra	33724	Chhattisgarh	714
NCT of Delhi	20569	Haryana	669
Gujarat	19564	Puducherry	573
West Bengal	18204	Mizoram	527
Bihar	5602	Uttarakhand	479
Andhra Pradesh	3724	Arunachal Pradesh	273
Tamil Nadu	3177	Manipur	153
Jharkhand	1499	Tripura	56
Karnataka	1405		

Source: CMIE, RBI

STATE WISE FARM LOAN WAIVER ANNOUNCEMENT DETAILS SINCE APRIL 2017 (RS. CRS)



Source: PIB Press Release, Indian Express editorial column dated 10th December, 2018
Note: The month in bracket refers to the month in which the state made announcements

'Direct tax-GDP ratio during FY18 best in 10 yrs'

PRESS TRUST OF INDIA
NEW DELHI, JANUARY 2

THE DIRECT tax-to-GDP ratio of 5.98 per cent achieved during 2017-18 fiscal is the best in the last 10 years, the finance ministry said Wednesday.

It was 5.57 per cent in 2016-17 and 5.47 per cent in 2015-16. The ministry said the larger purpose of demonetisation was to move India from a tax non-compliant society to a compliant society and the impact of note ban has been felt on collection of personal income tax. In its 2018 review, it said: "There is a constant growth in direct tax-GDP ratio over last three years and the ratio of 5.98 per cent in Fiscal Year 2017-18 is the best DT-GDP ratio in last 10 years".

It said there is a growth of over 80 per cent in the number of returns filed, from 3.79 crore in 2013-14 to 6.85 crore in 2017-18.

The number of individuals filing return of income has also increased by about 65 per cent during this period from 3.31 crore in 2013-14 to 5.44 crore in 2017-18, the ministry added. It said there has been a continuous increase in amount of income declared in returns filed by all categories of taxpayers over the last three assessment years (AYs).

"For AY 2014-15, corresponding to FY (financial year) 2013-14 (base year), the return filers had declared gross total income of Rs 26.92 lakh crore, which has increased by 67 per cent to Rs 44.88 lakh crore for AY 2017-18, showing higher level of compliance resulting from various legislative and administrative measures taken by the government, including effective enforcement measures against tax evasion," it added.

RBI sets up small units' panel headed by former Sebi chief

ENS ECONOMIC BUREAU
MUMBAI, JANUARY 2

A DAY after unveiling the loan restructuring for micro, small and medium enterprises (MSMEs), the Reserve Bank of India (RBI) on Wednesday decided to constitute an expert committee on MSMEs, headed by former SEBI Chairman UK Sinha, to understand the structural bottlenecks and factors affecting the performance of the MSMEs.

The other members of the committee are: Ram Mohan Mishra, Additional Secretary, Development Commissioner MSME, Pankaj Jain, Joint Secretary, Department of Financial Services, PK Gupta, Managing Director, SBI, Anup Bagchi, Executive Director, ICICI Bank, Abhiman Das, Professor, IIM-Ahmedabad, Sharad Sharma, Co-Founder, iSPIRT Foundation and Bindu Ananth, Chair, Dvara Trust.

The terms of reference of the committee will include review of the current institutional framework in place to support the MSME sector and the impact of the recent economic reforms on the sector and identify the structural problems affecting its growth. It will also examine the factors affecting the timely and adequate availability of finance to the sector, study the global best practices with respect to MSMEs and recommend its adoption in India, wherever appropriate and review existing MSME focused policies and its impact on the sector. The panel will also propose measures for leveraging technology in accelerating growth of the sector and suggest long-term solutions for economic and financial sustainability of the MSME sector. The expert committee will submit its report by June end.

"It has been considered necessary that a comprehensive review is undertaken to identify causes and propose long term solutions, for the economic and financial sustainability of the MSME sector," the RBI said.

Qatar Airways acquires 5% of China Southern Airlines

REUTERS
DUBAI/BEIJING, JANUARY 2

QATAR AIRWAYS has acquired a 5 per cent stake in China Southern Airlines, the state-owned Gulf carrier said on Wednesday, in a move to gain access to the fast-growing mainland Chinese market.

Qatar Airways also owns a 20 per cent stake in British Airways-parent International Consolidated Airlines Group , 10 per cent of South America's LATAM Airlines Group SA , 49 per cent of Italy's Meridiana and 9.99 per cent stake in Hong Kong's Cathay Pacific.

Qatar's flagship airline has sought new partners and routes after it was blocked last year from flying to the lucrative markets of Saudi Arabia and the United Arab Emirates because of restrictions imposed by those countries. Saudi Arabia, UAE, Bahrain and Egypt, imposed a political and economic boycott on Qatar since June 2017, accusing it of supporting terrorism, which Doha denies.

China Southern in a separate statement said Qatar Airways may consider increasing its stake in the airline in the next 12 months. Qatar had no previous investment in the Chinese airline. Qatar Airways is the second foreign carrier that has a stake in China Southern, after American Airlines. The Chinese carrier left the Skyteam airline alliance at the start of the year.

There are opportunities for "us to work together and build a long term relationship in ways that would bring benefits to customers of both airlines," said Qatar Airways' Chief Executive Akbar al-Baker.

Ajith K, director of Asia transport at UOB Kay Hian, said given that China Southern is the biggest competitor of Cathay Pacific in Greater China, this deal could strengthen the China Southern's position at the Hong-Kong carrier's expense.

Cabinet clears 3 banks merger; ₹600-cr subsidy sops get nod

ENS ECONOMIC BUREAU
NEW DELHI, JANUARY2

THE CABINET Committee on Economic Affairs (CCEA) on Wednesday decided to extend a 3 per cent interest subsidy for hundreds of items produced by labour-intesive sectors like agriculture, textiles and leather that also make up for a sizeable chunk of MSMEs.

"The proposal will entail benefits of around Rs 600 crore to exporters on interest equalisation for the remaining period of the scheme," the government said in a statement. The cabinet also approved a scheme for the proposed amalgamation of Bank of Baroda (BoB), Vijaya Bank and Dena Bank to create the country's second-largest public sector lender (after SBI). The amalgamation will take off from April 1. As per the scheme, the businesses, assets and liabilities of Vijaya Bank and Dena Bank will be transferred to BoB.

Separately, the Cabinet cleared a proposal to amend the Trade Unions Act, 1926 for making provisions regarding recognition of trade unions. The Act currently provides for only registration of trade unions. However, the recognition of trade union is governed by guidelines in the 'Code of Discipline' evolved in 1958, voluntarily accepted by employers and employees. The explicit recognition is crucial, as recognised trade unions will likely have more bargaining power with employers.

Apart from creating jobs, the sops for exporters are aimed at improving credit flow to the target exporters and boost outbound shipments that have been hovering around $300 billion a year since 2011-12 without substantial growth. The CCEA approved the commerce ministry proposal to include merchant exporters in the interest equalisation scheme for pre-and-post shipment rupee export credit by allowing them interest equalisation rate of 3 per cent on such credit for export of products covered under 416 tariff lines (products), according to the government statement.

These products are largely in MSME/labour-intensive sectors such as agriculture, textiles, leather, handicraft and machinery.Inclusion of merchant exporters in the scheme is expected to make the exporters more competitive, encourage them to export more products manufactured by MSMEs.

Earlier this year, commerce minister Suresh Prabhu had flagged the issue of a plunge in export credit. He had suggested that loans to exporters should be considered priority sector lending by the banks.

Federation of Indian Export Organisations (FIEO) president Ganesh Kumar Gupta hailed the move. "Merchant exporters contribute to about 35 per cent of country's exports and high cost of credit equally blunts their competitive edge." The subsidy will significantly reduce the cost of operation of merchant exporters, who play a key role in shipping out items produced by MSMEs. The country's merchandise exports grew by 11.6 per cent in the April-November period to $217.5 billion.

The outbound shipments grew around 10 per cent in the last fiscal to $303 billion, albeit on a low base. Separately, BoB on Wednesday finalised the share swap ratio for merger of Vijaya Bank and Dena Bank with itself. As per the plan, shareholders of Vijaya Bank will get 402 equity shares of BoB for every 1,000 shares held. As for Dena Bank, its shareholders will get 110 shares for every 1,000 shares of BoB.

The government in September last year had announced the amalgamation of these banks. **FE**

'RECOGNISED UNIONS COULD BARGAIN MORE'

- **Explicit recognition of trade unions is crucial, as recognised trade unions will likely have more bargaining power with employers. The Act currently provides for only registration of trade unions**
- **Sops for exporters are aimed at improving credit flow to the target exporters and boost outbound shipments that have been hovering around $300 billion a year since 2011-12 without substantial growth**