Economy

CASH-STRAPPED HAL

@RahulGandhi, Rahul Gandhi, Congress president
That HAL doesn't have enough cash to pay salaries, isn't surprising. Anil Ambani has Rafale. He now needs HAL's brilliant talent pool to deliver on his contracts. Without salaries, HAL's best engineers & scientists will be forced to move to AA's venture.

Quick View

Central trade unions go on two-day strike

CENTRAL TRADE UNIONS Monday said around 20 crore workers will go on a 2-day nationwide strike from Tuesday to protest against the government's alleged anti-worker policies and unilateral labour reforms. "...This is the largest number of workers from formal and informal sectors joining the strike against anti-people and anti-worker policies of the BJP-led central government," Amarjeet Kaur, general secretary of AITUC, said.

PFS gets ₹1,400-cr credit from SBI

PTC INDIA FINANCIAL Services (PFS) Monday said it has received a sanction for credit facilities of ₹1,400 crore from State Bank of India (SBI). This arrangement also includes a partial credit enhancement (PCE) facility of ₹400 crore, which will support ₹2,000 crore bond issuance. In November 2018, the Reserve Bank of India allowed banks to provide PCE limits to non-banking finance companies in view of cash crunch faced by such entities.

NABARD sets up VC company

NABARD Monday said it will provide early stage finance to agriculture and rural enterprises through its venture capital entity. NABVENTURES, incorporated by NABARD under the Companies Act, will launch its maiden fund offer by the middle of February.

India takes over Chabahar Port ops

INDIA HAS TAKEN over operations of the strategic Chabahar port in the Sistan-Balochistan province of energy-rich Iran's southern coast, the government said Monday. This is the first time India will be operating a port outside its territory.

PART OF 2017-18 SURPLUS

RBI may transfer ₹30k-cr interim dividend to govt

The transfer could take place before the RBI's Economic Capital Framework panel submits its recommendation

FE BUREAU
New Delhi, January 7

THE RESERVE BANK of India (RBI) may transfer an interim dividend of over ₹30,000 crore to the Centre this year, a source told *FE*. This will help a poll-bound government meet its FY19 fiscal deficit target of 3.3% of GDP at a time when goods and services tax and disinvestment revenues are expected to trail the budgeted goals.

The RBI in August 2018 announced the transfer of ₹50,000 crore to the Centre from its 2017-18 (July-June) surplus. Given that the amount included ₹10,000 crore transferred in March as an interim measure to aid the Centre's effort to contain the FY18 fiscal deficit, the Centre will have only ₹40,000 crore available for FY19, against the finance ministry's estimate of ₹45,000 crore. The Centre's FY19 receipts budget includes ₹54,817 crore as "dividend/surplus from RBI, public sector banks and financial institutions".

The transfer could take place before the Bimal Jalan-led expert committee on the RBI's Economic Capital Framework (ECF) submits its recommendation, said the source.

In a briefing on Monday, RBI governor Shaktikanta Das, however, didn't reveal if the central bank would transfer an interim dividend, saying any such decision would be announced in due course.

Earlier this fiscal, the finance ministry's demand for changes to the RBI's ECF, which determines its surplus transfer to the Centre, to ensure a greater flow of dividend ahead of 2019 elections had strained its relations with the RBI management and was believed to be one of the main reasons for the resignation of Urjit Patel as the governor. Prime Minister Narendra Modi, however, said recently that Patel wanted to quit months before his departure in December for personal reasons.

Economic affairs secretary Subhash Chandra Garg last month said the government would seek an interim dividend from the central bank.

The finance ministry has asserted that the Centre will meet its fiscal deficit target of 3.3% of GDP for FY19, despite a shortfall in GST collection and an expected boost to spending ahead of 2019 polls. The shortfall in GST revenue from the budgeted target is expected to be as much as ₹1 lakh crore this fiscal. Even the net direct tax collection has lagged the budgeted targets — 13.6% rise between April and December against a budgeted increase of 14.4% for the full year. An interim dividend from the RBI will come in handy for the Centre in such a situation.

Dividend receipts from the RBI have been one of the major non-tax revenue heads for the Centre. Last year, the central bank nearly halved the dividend to ₹30,659 crore from the ₹58,000 crore budgeted by the Centre as the post-demonetisation currency printing cost (about ₹20,000 crore) depleted its surplus. The RBI had transferred ₹65,876 crore in 2016.

FY19 GDP growth seen at 3-year high of 7.2%

FE BUREAU
New Delhi, January 7

THE ECONOMIC GROWTH will scale a three-year peak of 7.2% in the current fiscal, against 6.7% a year before, as a recovery in the investment cycle is expected to soften the blow of a slowdown in private consumption, according to the advance estimate released by the Central Statistics Organisation on Monday.

However, a projected marginal drop in FY19 nominal GDP from the budgeted target will exert further pressure on a poll-bound government — already facing a shortfall in indirect tax receipts and scouring for resources to make up for it — to either cut expenditure in excess of ₹2,500 crore or shore up revenue to that extent from its budgeted goals to maintain its fiscal deficit aim of 3.3%.

The CSO's estimate is lower than the Reserve Bank of India's GDP growth projection of 7.4% for FY19, although it's higher than that of some private analysts who had lowered their projections to around 7% in recent months.

Manufacturing has showed signs of a pick-up and is now forecast to grow 8.3% this fiscal year, compared with 5.7% in the previous year. Farm and allied sector growth is projected at 3.8%, up from 3.4%. Growth in construction, which got hit after demonetisation, is expected to recover to 8.9% in FY19, against just 5.7% a year before. Financial, real estate and professional services will grow 6.8% in FY19, compared with 6.6% in the last fiscal, the CSO said.

On the demand side, however, growth in private final consumption expenditure, a key driver of the economic growth in recent years, is expected to falter to 6.4% in FY19 from 6.6% a year before. Even the government final consumption expenditure is expected to grow at a slower pace — 9.2% in FY19, against 10.9% in the year before. However, gross fixed capital expenditure is expected to stage a rebound — it will grow 12.2% in FY19 against 7.6% in the last fiscal. Consequently, while the share of such fixed investment in GDP is expected to rise from 31.4% in FY18 to 32.9% this fiscal, that of private consumption will fall. Some analysts however expressed doubts about the sustainability of the recovery in private investments.

In a report last month, Nomura said: "Lower oil prices have created a positive environment for India, but we are downbeat on the economic outlook as we expect the economy to transition from a growth sweet-spot in 2018 to a soft patch in 2019."

GDP growth had fallen to a worse-than-expected 7.1% in the second quarter, from 8.2% in the previous quarter, dragged down by a slower consumer spending and farm growth. With the fall in global crude oil prices and strengthening of the rupee in recent weeks, the government plans to prop up rural demand through higher spending and a financial package for farmers, likely in the annual budget to be presented on February 1.

Sectoral gross value addition
(% growth, y-o-y)

	FY18	FY19*
Farm & allied sectors	3.4	3.8
Mining & quarrying	2.9	0.8
Manufacturing	5.7	8.3
Electricity, utility services etc	7.2	9.4
Construction	5.7	8.9
Trade, hotels, transport etc	8	6.9
Financial services etc	6.6	6.8
Public administration and others	10	8.9
Overall GVA	6.5	7

Source: MOSPI *Advance estimate

Sops for nomination-era oil & gas fields soon

FE BUREAU
New Delhi, January 7

The move will benefit state-run ONGC and Oil India which operate most of the fields from the nomination era

TO RAISE THE production of hydrocarbons, the government is planning to provide fiscal incentives for fields from the nomination era. Difficult fields from the nomination era will be given additional incentives.

"The current financial model is not viable for companies operating fields under the nomination era," said petroleum minister Dharmendra Pradhan while speaking to reporters here during the launch of the second round of the Open Acreage Licensing Policy (OALP), a critical part of the March 2016-launched Hydrocarbon Exploration Licensing Policy (HELP).

The move will benefit staterun ONGC and Oil India which operate most of the fields from the nomination era. Fields nominated to ONGC and Oil India account for 70% of domestic oil output. But production from these fields have stagnated around 25 million tonne per annum for years. ONGC produces almost 87% of its crude oil production from nominated blocks.

ONGC has been seeking an upward revision of the postwellhead cost to reduce its royalty outgo on crude oil produced from nomination blocks. In 2007, the ministry of petroleum and natural gas through a gazette notification said that the wellhead price — on which royalty payment to the government will be calculated — of crude oil for nominated blocks of ONGC and Oil India shall be ascertained by deducting ₹1,250 per tonne of oil for onshore blocks and ₹947 for offshore blocks as operational expenditure. However, despite the companies claiming that cost have gone up significantly, the rates have not been revised.

HELP's hallmarks are single licence for exploration of all forms of hydrocarbons (including shale gas and coal bed methane), a simple revenue-sharing model and marketing and pricing freedom for the developers.

On Monday, the Directorate General of Hydrocarbons launched the second round of auctions of oil and gas fields held under OALP. The round offers 14 blocks covering 30,000 sq km.

The government expects the second round of OALP to generate about $500-600 million of revenue from commitment made under exploration work programme.

Of the 14 blocks offered, 10 blocks are based on expression of interest submitted by bidders and four blocks have been carved out by the government.

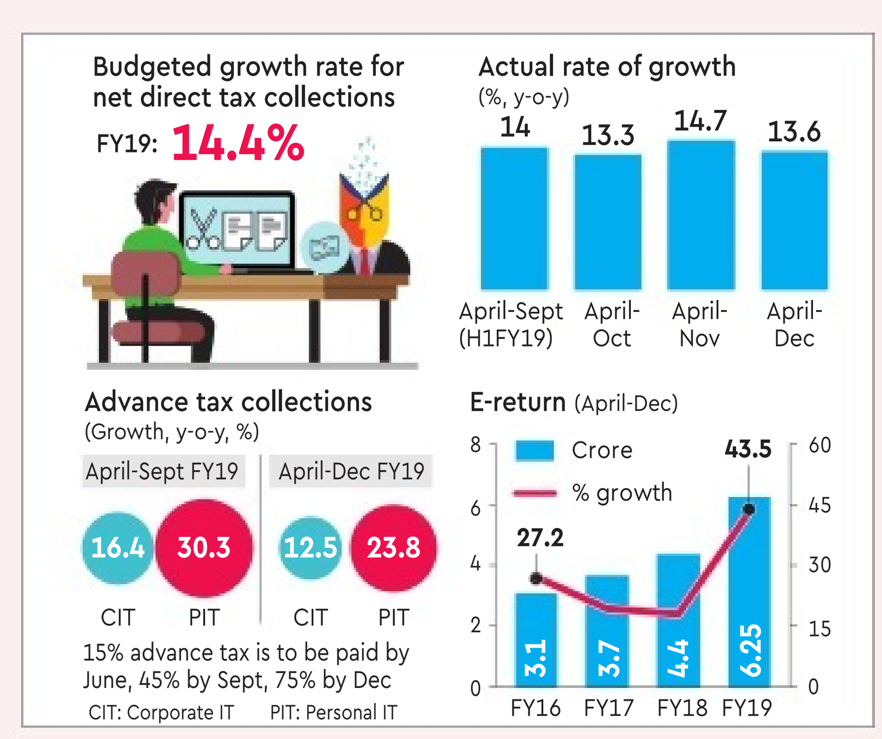
Direct tax growth lower than estimate in Apr-Dec

FE BUREAU
New Delhi, January 7

THE NET (POST-REFUNDS) direct tax collection for April-December period this fiscal was ₹7.43 lakh crore, up 13.6% from the year-ago period. The growth in collection in the first nine months of the year was marginally lower than the rate of 14.4% required to meet the budget estimate of ₹11.5 lakh crore for direct taxes in FY19.

This is despite a robust 43.5% y-o-y growth in number of income tax e-returns filed for the first nine months of the fiscal, which stood at 6.25 crore. The refunds in the April-December period was ₹1.30 lakh crore, 17% higher than the same period last year.

The government has been banking on direct tax collection to somewhat bridge the likely deficit in GST collections. Officials of CBDT had said last month that with most refunds already sanctioned and advance tax installment in December, the direct tax collections would grow at a higher pace.



The lack of expected growth in mop-up prompted the CBDT chairman Sushil Chandra to send missives to tax commissioners across the country asking them to pull up their socks and improve collections in the last quarter of the fiscal. Chandra also expressed concern that the budget target may prove difficult to meet if collections don't grow faster in Q4.

The third installment of advanced tax, which was to be paid by December 15, grew at lower rate compared with the first half of the fiscal. "The growth rate of corporate advance tax is 12.5% and that of personal income tax is 23.8%," the government said. The comparable figures were 16.4% and 30.3% for April-September period. Advance tax is required to be paid in four installments of 15%, 45%, 75% and 100% by middle of June, September, December and March respectively.

The net growth in corporate income tax collections came in at 16% and that in personal income tax was 14.8%. "It is pertinent to mention that collections of the corresponding period of FY 2017-18 also included extraordinary collections under the Income Declaration Scheme (IDS), 2016 amounting to ₹10,844 crore (third and last installment of IDS), which do not form part of the current year's collections," the government said.

From the Front Page

Elections in mind, quotas for upper castes

IN A NOTE justifying the move, the Union government stated, "The economically weaker sections of the people who are not covered by any of the existing schemes of reservation constitute a considerable part of the Indian population. In view of the above, and in order to do justice to all weaker sections of people, it has become essential to appropriately amend the Constitution in order to enable the State to extend the various benefits... to the economically weaker sections of the people who are not covered by any of the existing schemes of reservation."

Though similar suggestions have been made by political leaders like Mayawati and Ramdas Athawale in the past, this is the first substantial move to take the legislative route to provide for this change.

Minister of state for social justice and empowerment Athawale told The Indian Express, "The issue of reservation caused a lot of conflict between Dalits and Savarnas. My demand has always been for 25% reservation for the upper caste poor; 10% is a good start."

He said Tamil Nadu already exceeded the cap on reservation by granting 69% quota. Athawale was the first to put forth this demand for reservation for EBCs as soon he was made minister of state for social justice and empowerment in 2016. He had asked that the reservation of 49.5% should be increased to 75% so as to accommodate the EWS amongst Brahmins, Rajputs, Marathas, Jats, Patels and Gujjars.

In the wake of the upper caste backlash against the VP Singh government's decision to implement the Mandal Commission recommendation to extend reservations to OBCs, prime ministers Narasimha Rao, in 1991, had introduced 10% reservation for the poor among forward castes.

But in 1992, while upholding reservation for OBCs as per the Mandal Commission recommendation, the Supreme Court, in the Indra Sawhney & Others vs Union Of India case, directed that reservation be restricted to maximum 50%. It also said that separate reservation for economically poor among forward class was invalid as the Article 15(4) contained only socially and educationally backward classes and not economically backward classes.

"The Narsimha Rao government's attempt was thrown out as it violated the structure of 50% ceiling," a highly placed source said, underlining that "this time this structure is being changed to provide for reservation up to 60%".

The move comes in the backdrop of an upper caste backlash against the Modi government's move against the Supreme Court's attempt at ring-fencing apprehensions on the misuse of SC/ST Prevention of Atrocities Act. The Supreme Court move sparked protests from Dalit groups across the country following which the government brought a legislation and nullified the Supreme Court's measure through Parliament in the last monsoon session.

The upper caste communities, in turn, voiced their protest over the government's alacrity in addressing the concerns of Dalit communities of the issue. Senior BJP leaders, in this context, confided that the BJP faced hostile upper castes in the recently concluded assembly elections in Madhya Pradesh, Rajasthan and Chhattisgarh.

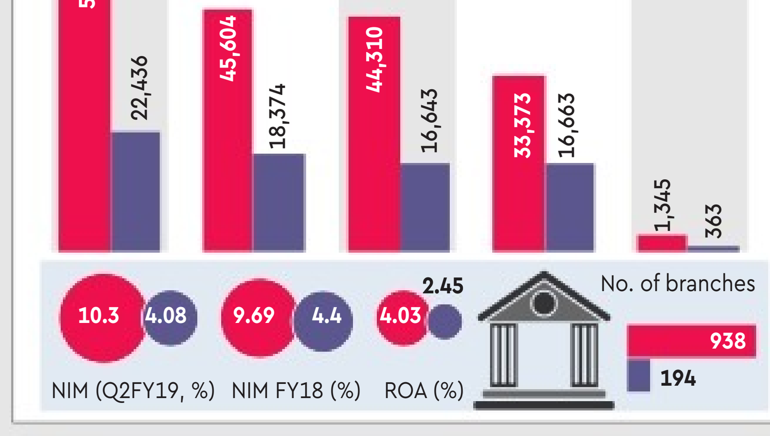
The move by the central government appears an attempt to placate the upper castes ahead of 2019 Lok Sabha elections.

P S Krishnan, former secretary in the Ministry of Welfare, said the very constitutionality of this amendment is questionable as other than the Scheduled Castes and Scheduled Tribes, the Constitution grants reservation to those who are only socially and educationally backward, not economically.

"Any Constitutional amendment has to be in keeping with the basic structure of the Constitution. Individuals from SC, ST and OBC have been discriminated against, and systemically and collectively excluded from education, administration, modern areas of employment.

There are poor among upper castes but poverty is not caused by social deprivation and, hence, it is not eligible for reservation under the Constitution," Krishnan said, adding that the appropriate remedy is to provide such children with scholarships, loans, access to skill training, and not reservation which is for those who have faced systemic blocks.

Gruh to merge with Bandhan Bank



"WE HAVE 978 branches but we are primarily based in the eastern part of the country whereas Gruh has a big presence in the western region, so the geographical reach will improve," Ghosh explained. The swap ratio, analysts said, was slightly in favour of Bandhan Bank. RBI's banking licence rules require the promoters of Bandhan Bank — Bandhan Financial Holdings — to lower its stake from 82.3% to 40% within three years of starting business. The central bank had penalised the lender for failing to comply with the guidelines within the stipulated timeline by by freezing branch expansion and remuneration of founder and chief executive.

Gas-based power: 'Govt to blame for crisis'

"SUCH SITUATIONS," the panel said, "reflect poorly on the credibility and reliability of the government's projections and policies". The committee, however, opposed the government's reported plan to allow free-market pricing of gas, saying it will result in "exorbitant prices" and be detrimental to the users.

Out of the 24,867 MW of installed gas-based power capacity, 31 units (14,305 MW) is currently stranded due to shortage of domestic gas supply. While seven such plants are government-owned, 24 (9,673 MW) belong to the private sector. Out of these, 5,194 MW were set up mainly with the expectation of rise in domestic gas production from the KG-D6 field.

The stranded plants include those of Reliance Infra, GMR Energy, GVK Power and Lanco Power. Lead lenders to big-ticket gas projects include IDBI, SBI and Axis Bank, with outstanding amounts of about ₹16,300 crore, ₹2,000 crore and ₹1,900 crore, respectively.

The continuous drop in the price of solar and wind-based electricity, coupled with demand growth not being at par with the surge in addition of power generation capacity, has hurt the utilisation levels of thermal power plants. Additionally, since gas-based electricity being much costlier than other sources of power, state-owned discoms are disinclined to sign long-term PPAs with them. At 7-12/unit, gas-based power is costlier compared with ₹2.41-3.50/unit range discoms pay for other power sources on a weighted average basis.

"ONGC supplies gas to power plants at prices as high as $7.68/million British thermal units (mbtu) from its offshore deep-water basins, which makes it impossible to sell electricity at lower prices to discoms," a senior official from a gas-based-power company told FE on condition of anonymity.

"For gas-based power to be affordable, it has to be priced at around ₹3/unit, and to achieve such pricing the cost of gas at burner tip should be more than $5.5-6.0/mbtu," the power ministry told the parliamentary committee.

Currently, the gas price at power plants remains in the range of $4-8/mbtu for domestic gas and $10-12/mbtu for imported RLNG.

The House panel, headed by BJP legislator Kambhampati Haribabu, noted that all operational LNG terminals in the country – with combined capacity of 95 mmscmd – are situated on the West Coast of the country and asked the petroleum ministry to speed up construction of the planned terminals on the east coast, where many power units are stranded for want of fuel.

According to the committee's report, when it had asked a top banking executive about the future of gas power in the country, the person admitted that lenders are "groping in the dark" on this issue. With no solution in sight, "we have to write off this investment", the executive said. At this, the committee expressed its dismay and noted that "instead of ensuring how these stranded power plants can be efficiently utilised, there is an air of despondency and increasing clamour to send these plants to NCLT".

"Report of the parliamentary committee captures most of the concerns of the gas-based power plants and the possible option for revival of the gas based projects," a senior official from the GMR Group told FE. "As the demand for energy is picking up due to the government's effort in electrifying all households, revival of gas-based plants will help in providing clean energy as well meet the country's peak demand," the official added.

Romesh Sobti: Banking's Rahul Dravid

SOBTI WILL TURN 69 in March but you wouldn't guess it. The studious engineer who opted to become a banker rather than a scientist or an IAS officer, has big plans for his bank. His approach: Test and then trust the people you work with. That's the secret of his success.