

Economy

WEDNESDAY, FEBRUARY 13, 2019



MAKING WAVES

Manoj Sinha, communications minister

The economic impact of 5G is expected to be over one trillion dollars for India, and the consequent multiplier effect is expected to be much more.

Quick View



Bill on ponzi schemes introduced

A BILL SEEKING to protect gullible investors from ponzi schemes was introduced in the Lok Sabha on Tuesday by finance minister Piyush Goyal. The House will take up the Bill for discussion and passage on Wednesday. Members from the treasury benches and the opposition suggested that the Question Hour may be suspended on Wednesday, the last day of the Budget Session, to take up the Bill so that it can be sent to the Rajya Sabha for passage after the Lok Sabha approves it.

Govt introduces IFSC Bill in RS

THE GOVERNMENT ON Tuesday introduced a Bill to set up a unified authority for regulating all financial services in international financial services centres (IFSCs) in the country. The International Financial Services Center Authority Bill, 2019, mandates that transaction of financial services in the IFSC shall be governed by an authority headed by a chairman.

Film piracy: Bill to ensure penalty

THE GOVERNMENT ON Tuesday introduced a Bill in the Rajya Sabha to amend the Cinematograph Act and impose strict penalty to combat the menace of film piracy. Minister of state for information and broadcasting Rajyavardhan Rathore introduced the Cinematograph (Amendment) Bill, 2019, in the Upper House.

FM: Black money reports available

FINANCE MINISTER PIYUSH Goyal on Tuesday said the reports on black money are available for members of a Parliamentary committee, after some members of the panel claimed that the reports are not being shared with them. The issue was raised by BJD leader B Mahtab during the discussion on Finance Bill and he was supported by TMC member Saugata Roy.

US diplomat flays e-comm FDI rules

WASHINGTON HAS EXPRESSED concerns over the new policy measures on data localisation and restricting e-commerce play by foreign companies, exhorting New Delhi to consult all key stakeholders before making any such move. It is in everybody's interest to have an open and transparent business environment, acting principal deputy assistant secretary of the US, Thomas Vajda, said.

Saudi prince to visit next week

DEFENCE, TRADE AND ENERGY security are expected to be high on the agenda when Saudi Arabia's Crown Prince and defence minister Mohammed bin Salman holds talks with Prime Minister Narendra Modi during his two-day visit to India next week. Prince Salman will arrive India on February 19 on his maiden trip to the country.

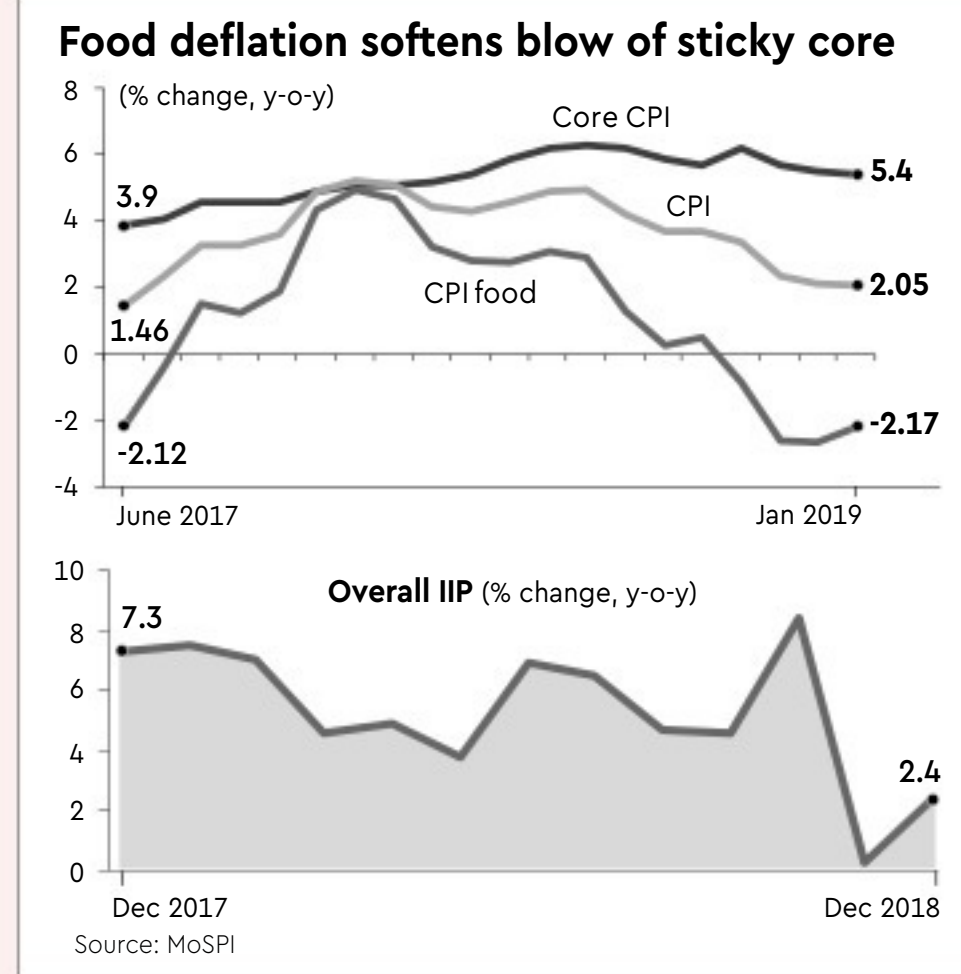
DOUBLE BONANZA

CPI inflation at 19-month low in Jan; IIP growth recovers in Dec

FE BUREAU
New Delhi, February 12

RETAIL INFLATION HITS a 19-month trough of 2.05% in January, as a deflation in food articles persisted and price pressure in fuel eased, showed the data released by the Central Statistics Organisation on Tuesday. Industrial output growth touched 2.4% in December 2018, having recovered from a 17-month trough of 0.3% (revised) hit in the previous month. However, industrial growth still trails the average rise of 4.6% witnessed in the April-December period, and is expected to remain subdued, at least until February, due to an unfavourable base effect.

Inflation in January under-shot the Reserve Bank of India's (RBI's) latest forecast of 2.8% for the March quarter, prompting some analysts to predict another rate cut by the central bank in April, given



new RBI governor Shaktikanta Das' focus on growth and his view that inflation

remains benign.

The deflation in food articles for a fourth straight

month through January suggests farm distress hasn't yet subsided meaningfully, posing a challenge for the poll-bound government. It also signals the government's promise of ensuring a 50% profit to farmers over costs for a range of crops may not have been backed by adequate procurement. Deflation in food has also blunted the negative impact of sticky core inflation on the headline CPI.

Shubhada Rao, chief economist at Yes Bank, said, "Extended winter remains supportive of decelerating food prices. The fuel component too has surprised on the downside. This along with core inflation at 5.36% presents a scenario of CPI year-on-year between 2-3%. This raises the probability of rate cuts in April and beyond too."

In a surprise move, the Monetary Policy Committee (MPC) last week cut the

benchmark repo rate by 25 basis points, in its first cut in 18 months, and hinted of more room to cut the rates in the coming quarters. It remains unperturbed by the government's fiscal expansion (The centre would breach the fiscal deficit target by 10 basis points in FY19 and by 30 basis points in FY20, according to the interim Budget).

As for the Index of Industrial Production, capital goods witnessed volatility again. It rose 5.9% in January from a 3.4% drop in the previous month, suggesting a sustained recovery in investments is yet to take roots. A sharper contraction in consumer durables than non-durables suggests urban consumption, too, is under pressure. A 10.1% in infra goods in January, against 5% in the previous month, means the damaging impact of demonetisation and GST has waned.

India invites EoIs for 111 naval helicopters

SANJEEV MIGLANI
New Delhi, February 12

INDIA ON TUESDAY invited expressions of interest for 111 helicopters to be made in the country in collaboration with foreign partners, the defence ministry said, in a deal estimated at nearly \$3 billion.

Lockheed Martin, Airbus Helicopters and Bell Helicopters are among those expected to participate in the bidding, the ministry statement said, to replace the Navy's ageing Soviet-era helicopters. India has been trying to modernise its military to narrow the gap with China but defence expenditure has been largely stagnant, making for slow procurement.

Under the elaborate rules of defence purchases, once manufacturers have submitted expressions of interest, the defence ministry will issue requests for proposals likely to be in the third quarter of 2019. That will be followed by a

The govt has invited expressions of interest for a deal estimated at nearly \$3 billion

tender inviting final bids from the manufacturers in a process that is expected to take years.

The domestic companies likely to participate in the bidding are Tata Advanced Systems, Mahindra Defence, Adani Defence, L&T, Bharat Forge and Reliance Infrastructure, the defence ministry said.

These firms will collaborate with the foreign companies to make the helicopters in India under Make-in-India designed to build a domestic military industrial complex and reduce imports. "The project is likely to provide a major boost to the 'Make in India' initiative and fillip to manufacturing capability for helicopters in India," it said.

The helicopters are meant for search and rescue operations, casualty evacuation and light transport. — REUTERS

Outstanding tax demand rose by 45% in last 4 years

FE BUREAU
New Delhi, February 12

THE TOTAL OUTSTANDING tax demand payable to exchequer has risen by nearly 45% to ₹10.7 lakh crore in the April-December period of the current fiscal from the FY16 level, minister of state for finance Shiv Pratap Shukla said in a written reply in Parliament on Tuesday. The outstanding demand includes both direct and indirect taxes.

The reply, however, cited a confidentiality clause in I-T Act to a deny information on outstanding liability of specific taxpayers in the corporate sector. "General disclosure of tax information of specific taxpayers is prohibited under section 138 of the I-T Act," the minister said.

According to the data tabled in the Rajya Sabha, outstanding indirect tax payable rose by over



37% between FY16 and FY19 (up to December) but the recoverable direct tax payable went up by over 47% during the same period.

"Guidelines for tax recovery officers for recovery and guidelines to assessing authorities for dealing with stay petitions have been issued. A new reward scheme for information leading to recovery of arrears has also been notified. The names of confirmed defaulters are placed in public domain," the minister said.

Cases of suspicious I-T refund claims rise over last 3 years

FE BUREAU
New Delhi, February 12

EVEN AS REFUNDS disbursed by the income tax department (ITD) has grown over the years, the number of suspicious refund claims have also risen over the last three years, minister of state for finance Shiv Pratap Shukla said in a written reply in Parliament.

The ITD selected 20,874 cases in the current fiscal to examine suspicious refund claims compared with 11,059 and 9,857 in the previous two financial years, respectively



The income tax department selected 20,874 cases in FY19 to examine suspicious refund claims compared with 11,059 and 9,857 in the previous two financial years, respectively

stood at ₹1.43 lakh crore

compared with ₹1.52 lakh crore in FY18 and ₹1.63 lakh

crore in FY17.

"Scrutiny assessments have been initiated against taxpayers claiming high refunds inconsistent with the pattern of income and investments. Wherever after scrutiny the claim of refund was found to be inadmissible, the same was denied and consequential action of penalty and prosecution was taken based on the merits of the case," Shukla said in his reply in Parliament.

Till January 15, the finance ministry said over 3 lakh including 36,616 cases of

refunds were pending for scrutiny. Additionally, a total of 16,21,848 claims of refund (including non-scrutiny cases) are pending for issue as on January 31, 2019.

"Since only about 0.5% of the returns is selected for scrutiny, refunds are issued expeditiously at the time of processing itself for the bulk of the taxpayers. With regard to the pending scrutiny cases, the assessing officers have already been advised in the Central Action Plan for 2018-19 to expedite assessment in such cases," the minister said.

Flight cancellations non-stop for IndiGo

While the airline maintains that the cancellations are due to its adjusting flight schedules after the hailstorm that hit parts of north India on Friday last week leading to diversion of several flights, industry sources said the carrier is facing shortage of crew as it has expanded rapidly. According to DGCA regulations, a pilot cannot fly more than 1,000 hours a year.

On Tuesday, the cancelled 30 flights were from major airports including Kolkata, Hyderabad and Bengaluru. IndiGo operates nearly 1,400 daily flights across the country and enjoys 43% domestic market share.

An IndiGo spokesperson said the airline is adjusting its flight schedule leading to cancellations of 30 flights daily. "This is in order to stabilise the network and operations impacted due to various ongoing Notam and predicted bad weather in the coming days," the spokesperson said.

"These adjustments amount to 1-2% of the originally planned number of flights," the spokesperson added.

IndiGo has been adding capacity at over 30% y-o-y during FY19, nearly double from its competitors. It added 55 aircraft during 2018 calendar year out 120 planes delivered in India.

"That (shortage of commanders) is the biggest problem. Though it hasn't led to cancellation of any flight at SpiceJet till now. We need to have more experienced pilots," he added.

Losses to come down for airlines: CAPA

According to CAPA, the Indian aviation industry is likely to see consolidation of "around 4-5 airline groups" and that a clear long-term strategy is not visible for some carriers.

It said low-cost carriers (LCCs) could return to profit during the next financial year. Low-cost carriers, which include IndiGo, SpiceJet, GoAir and AirAsia India, are expected to post a combined profit of \$100 million-\$150 million during FY20, the consultancy firm added.

On the other hand, full-service carriers — Jet Airways, Air India and Vistara — would continue to report losses to the tune of \$700-\$800 million. While national carrier Air India is surviving on government grants, Jet Airways' financial condition is precarious and unlikely to improve in the near future.

In terms of passenger traffic, the domestic market will expand by 14-16% in the next financial year. India is the fastest growing aviation market in the world clocking 17-23% year-on-year growth in the last four years mainly on account to cheap fares. CAPA India expects domestic carriers to add more than 90 aircraft during the course of FY20.

CAPA said that it expects airlines to prioritise yields in the next financial year. "The opportunity exists to create a

sustainable, profitable future within 1-2 years. This will drive serious investor interest given the size of the market," CAPA India CEO Kapil Kaul said.

CCI probing Google for alleged abuse of Android

Google declined to comment. The CCI did not respond to Reuters' queries.

The watchdog's enquiry into allegations against Google over its Android platform has not previously been reported.

Google executives have in recent months met Indian antitrust officials at least once to discuss the complaint, which was filed by a group of individuals, one of the sources said.

The Indian watchdog could ask its investigations unit to further investigate the accusations against Google, or throw out the complaint if it lacks merit. The watchdog's investigations have historically taken years to complete.

Android, used by device makers for free, features on about 85% of the world's smartphones. In India, about 98% of the smartphones sold in 2018 used the platform, Counterpoint Research estimates.

In October, Google said it would charge smartphone makers a fee for using its popular Google Play app store and also allow them to use rival versions of Android to comply with the EU order.

The change, however, covered only the European Economic Area, which comprises the 28 EU countries and Iceland, Liechtenstein and Norway.

Centre collects ₹550 cr from equalisation levy in FY18

FE BUREAU
New Delhi, February 12

THE CENTRE HAS collected more than ₹550 crore in FY18 from the equalisation levy, MoS for finance Shiv Pratap Shukla said in Parliament on Tuesday. Currently, a 6% tax is charged on consideration exceeding ₹1 lakh in a year for

digital services provided to Indian resident by a firm not having permanent establishment (PE) in the country.

"Further, the introduction of taxation based on significant economic presence is also expected to increase tax collection as it seeks to widen the tax base in India by establishing business connection and charging

to tax income earned by digital businesses which operate out of jurisdictions with which India has not entered into a Double Taxation Avoidance Agreement (DTAA)," he said.

The government is currently considering the threshold for establishing significant economic presence of a non-resident in India. However, in

respect of digital businesses operating out of jurisdictions with which India has already entered into a DTAA, significant economic presence will only be effective after renegotiation of such DTAA which will be based on international consensus, the Parliament reply said.

"If digital businesses operated by non-residents are struc-

tured to artificially avoid establishment of a "business connection" or "permanent establishment" in India, including by way of claiming the activities carried out in India to be preparatory or auxiliary in nature, the GAAR provisions under the I-T Act may become applicable to the income of such digital businesses in India," he said.

From the Front Page

"The CCI will have a tough time not initiating a formal investigation into Google given the EU case, unless they can show the problem has been addressed (by remedies)," one of the sources said.

The Indian complaint presents the latest regulatory headache for the Mountain View, California-based company in a key growth market.

Last year, the CCI imposed a fine of ₹136 crore (\$19 million) on Google for "search bias" and abuse of its dominant position. It also found Google had put its commercial flight search function in a prominent position on the search results page.

Google appealed against that order, saying the ruling could cause it "irreparable" harm and reputational loss, Reuters reported. — REUTERS

Neglecting social issues dangerous: Rajan

The state and markets have expanded their powers and reach in tandem, and left the community relatively powerless.

In a section focused on India, Rajan observes that the country, with its more pluralistic and open-access political system, is better positioned for the community to create more separation between the state and markets.

Its weakest pillar is the state, he argues.

The economy is not based on just two struts — markets and governments — but instead on a neglected third: the local community. "Neglecting social issues is not just

myopic, it is dangerous," he says and calls for a return to empowering local communities as an antidote to growing despair and unrest.

India's private sector is still dependent on the state, which makes it a feeble constraint on it. So, India has the paradox of having an ineffective but only moderately limited state, the book says.

India's challenge in the years to come is not its democracy, which is probably the only way to keep a country with such varied communities together, but the need to strengthen both state capacity and private sector independence, Rajan says.

He discusses how to harness the strengths of a vibrant but chaotic democracy, why India has not done as well as China and the threat of populist nationalism, predicting that democratic, open, tolerant India will be an important, responsible contributor to global governance in the decades to come, though populist nationalism around the world will make this less likely.

The book, published by HarperCollins India, releases on February 26.

Investor woes continue as mkt ends in red for 4th day

Several NBFCs have resorted to selling pledged shares and are monetising smaller businesses to free up cash.

Economists see the economy slowing as local liquidity remains limited and global growth slows. The subdued

demand for consumer durables in the last festival season is evidence, they say, of the absence of purchasing power.

Since January, the Nifty has yielded a negative return of 1.6% in dollar terms, underperforming most markets. India's market capitalisation has fallen 4.2% in dollar terms. In contrast, Chinese and Hong Kong equities have soared 8.6% and 8.3% respectively, Bloomberg data showed. The distress in the farm sector has also stymied demand.

At 36,153.62, the benchmark Sensex trades at a price-earnings (PE) multiple of 17.7 times to the estimated one-year forward earnings, against the long-term average PE of 16.5 times. This compares with 10.3 times for Kospi and 15.2 for Jakarta Composite. Russian equities were the cheapest in the emerging market with a forward price-to-earnings ratio of 5.7, followed by Turkey 6.8, Bloomberg data showed.

Foreign portfolio investors (FPI) have bought equities worth \$268.5 million so far in 2019 after remaining net sellers for most part of the year ago. On the other hand, domestic institutional investors (DIIs) bought shares worth \$251 million after purchasing whopping \$15.6 billion last year.

4G speed: Do your own test!

Airtel topped the speed chart with a score, an average of several download and upload sessions, of 10.34 across all network categories and even in the 4G segment with a score of 11.23. Vodafone followed Airtel in both the segments with average respective scores of 8.19

and 9.13, jio with 7.11 each and Idea Cellular with 6.2 and 7.02 scores, respectively.

But then Ookla and another overseas research firm Open Signal have consistently ranked Airtel ahead of jio in terms of speed in their various reports. However, the Telecom Regulatory Authority of India has always ranked Jio at the top. There's a difference in methodology adopted by Ookla and Open Signal on the one hand and Trai on the other. While the former two take a sample sizes and conduct their own speed tests, Trai crowd sources the speed test data.

Essar Steel insolvency: NCLAT extends deadline for NCLT

The NCLT had said that ₹54,389-crore offer by Essar Steel Asia Holding, which is much higher than the Arcelor-Mittal's ₹42,000 crore bid, is not maintainable as the only way to make a proposal is through Section 12A.

On Monday, the Supreme Court had rejected the plea of around 31 operational creditors of Essar Steel that they be individually allowed to represent their case in the NCLT. The SC said that only one representative of their's can put forward the case. The operational creditors feel that either Arcelor-Mittal should be asked to improve their offer with regard to payments to them or Essar Steel promoters offer should be accepted as they have offered their full payment.