ECONOMY

GOLD ₹34,000 | RUPEE ₹71.16 | OIL $63.42 | SILVER ₹40,650

Indian basket as on February 13, 2019

SENSEX: 35,876.22 ▼ 157.89 NIFTY: 10,746.05 ▼ 47.60 NIKKEI: 21,139.71 ▼ 4.77 HANG SENG: 28,432.05 ▼ 65.54 FTSE: 7,222.63 ▲ 31.79 DAX: 11,196.74 ▲ 29.52

International market data till 1900 GMT

SECTOR WATCH RENEWABLE ENERGY

Andhra move to re-open PPAs takes the wind out of RE projects

Worries that others states could follow suit; could lead to fresh wave of NPAs

ANIL SASI
NEW DELHI, FEBRUARY 14

TWO STATE-OWNED power discoms (distribution companies) of Andhra Pradesh have moved to reopen contracts signed with wind generators in recent months, a step that could impact at least 40 of India's biggest RE (renewable energy) developers and raises serious questions about the sanctity of contracts.

The move is a body blow for RE developers, who have been the only bright spark in the otherwise sluggish electricity generation sector, and there are concerns that other states could take cue from this and initiate similar reopening if wind and solar project PPAs on the same grounds cited by the Andhra discoms — that tariffs discovered in subsequent years have been cheaper.

Private developers have raised concerns that this move by the state utilities to cancel contracts signed with developers of new wind projects comes amid a general reluctance to renegotiate pacts signed with old and inefficient state-owned thermal plants, most of which are idling due to high tariffs but the distribution utilities are still forced to fork out fixed charges. A reworking of tariffs for these new projects could lead to a fresh wave of non-performing assets (NPAs) in the renewable energy sector, which has seen FDI inflows of $3.22 billion over the last four years alongside significant domestic investment leveraged by bank funding.

The two state-owned distribution utilities of Andhra Pradesh — Southern Power Distribution Company of Andhra Pradesh Ltd and Eastern Power Distribution Company of Andhra Pradesh Ltd — have moved a 'petition seeking relief' before the Andhra Pradesh Electricity Regulatory Commission (APERC) under three different sections of the Electricity Act, 2003 (read with APERC business regulations) to "revise the tariff" fixed for 82-odd wind power projects that include those by Tata Power Renewable Energy Ltd, Adani Wind Energy (AP) Ltd, PTC Energy Ltd, KC Thapar & Bros Ltd, Jindal Aluminium Ltd, Mythrah Vaayu, Renew Wind Energy Pvt Ltd, Ostro AP Wind Pvt Ltd and Orange Wind Power. All of these projects were implemented in 2016-17 under the Andhra Pradesh's 'preferential tariff' model.

The two discoms have justified the move by citing a subsequent competitive bidding process floated by the state-owned Solar Energy Corporation of India (SECI) in the month of February 2017 for procurement of 1,000 MW power sourced from wind projects having received tariff quotes of Rs 3.46 per unit, as against the Rs 4.84 (plus taxes) preferential tariff fixed by the APERC for the projects with which it entered into PPAs between April 1, 2016 and March 31, 2017. While acknowledging that the site conditions of Tamil Nadu and Andhra Pradesh are different, the discoms have claimed that the tariff decided by the APERC is "much higher" than what was discovered in the SECI's February 2017 competitive bidding process.

An Andhra Pradesh official said that developers such as Mytrah Energy, Green Infra Wind Energy, Inox Wind Infrastructure Services and Ostro Wind, who were involved in Andhra Pradesh, had participated in the above competitive bidding conducted by SECI and quoted lower tariffs. The discoms have asked the regulator to pass orders to amend the norms by tightening operating parameters including the capacity utilisation factor, return-on-equity, loan tenure, interest on term loan, depreciation and interest on working capital.

The renewable energy projects are mostly being implemented in the private sector. As on end-November 2018, a total capacity of around 73.95 gigawatts (GW) had been installed in the country of which 37.84 GW has been added during the last four-and-half years.

This comes at a time when India's progress towards its March 2022 target of 227 GW of renewable energy capacity is blunted somewhat due to the feeble progress in addressing the damage on account of the country's massive fleet of aging and inefficient coal- and lignite-fueled thermal power plants. Experts say that an exit option would relieve discoms from onerous financial liability and the funds thus released can be used by them to buy cheaper and more power, and supplying it to consumers at better rates.

MAY IMPACT 40 RE DEVELOPERS

- It could impact at least 40 of India's biggest renewable energy developers
- Reworking of tariffs for these new projects could lead to a fresh wave of non-performing assets in renewable energy sector, which has seen FDI inflows of $3.22 billion over the last four years

BOARD MEETING

Banks to get over 50% stake in Jet Airways bailout plan

Equity holding of Goyal and Emirates to come down by half to 25% & 12%, respectively

ENS ECONOMIC BUREAU
MUMBAI, FEBRUARY 14

THE BOARD of struggling Jet Airways Ltd, which recently defaulted on debt repayment, has agreed to give lenders the majority stake of 50.1 per cent by converting part of its debt into equity as part of a resolution plan worked out by lenders.

In a stock exchange filing, the loss-making airline said the board, as part of a bank-led provisional resolution plan, agreed to allot 11.4 crore shares at an aggregate value of Re 1 to the lenders' consortium led by State Bank of India. After the conversion, the lenders will end up owning 50.1 per cent in the carrier controlled by Naresh Goyal. As a result, equity holding of Goyal and Etihad Airways will come down by half to 25 per cent and 12 per cent, respectively.

The resolution plan allows the lending consortium to nominate members on the board. The company called an extraordinary general meeting on February 21 for shareholder approval.

The bank led provisional resolution plan (BLPRP) prepared by the lenders currently estimates a funding gap of Rs 8,500 crore (including proposed repayment of aircraft debt of Rs 1,700 crore) to be met by appropriate mix of equity infusion, debt restructuring, sale, sale and lease back and refinancing of aircraft, among other things. The BLPRP will be presented for consideration of each of the following: the consortium of lenders, the Overseeing Committee of the Indian Bankers' Association, the board of directors of Etihad Airways and the promoter Goyal.

Thereafter, the implementation of the final bank led resolution plan (BLRP) will take place under the guidance of a monitoring agency. "This implementation and any action thereon will be under the provisions of and subject to receipt of all applicable statutory, regulatory, contractual and corporate approvals and consents, including that from the Securities & Exchange Board of India, Ministry of Civil Aviation and Competition Commission of India, as may be required," the company said.

After the company receives the requisite approvals from shareholders at their meeting scheduled to be held on February 21, 2019, the provisional plan (BLPRP) proposes conversion of lenders' debt into 11,40,00,000 shares of Rs 10 each by allotment of such number of equity shares to the lenders that would result in the lenders becoming the largest shareholders in the company. Such allotment of 11,40,00,000 shares will be made at an aggregate consideration of Re 1 only since under the RBI circular, lenders can convert debt into equity at Re 1 when the book value per share of a company is negative.

The market value of 11.4 crore shares at Thursday's share price of Rs 225.80 works out to Rs 2,574 crore. The BLPRP also proposes sanction of appropriate interim credit facilities by domestic lenders on terms to be agreed and appropriate governance structure including the board composition in accordance with applicable statutory and regulatory requirements.

The airline was earlier in talks with Emirates for fund infusion and more stake for the Gulf-based airline. Etihad, which holds 24 per cent stake in Jet Airways, had offered to buy Jet shares at a 49 per cent discount — at Rs 150 per share — and bail out the carrier. Etihad CEO Tony Douglas had written to lenders led by SBI about the possibility of increasing the stake. However, Etihad wanted Jet's founder and chairman Goyal to step down from the board and his stake to be slashed to 20-22 per cent from 51 per cent.

Etihad has also reportedly sought exemption from making an open offer to other shareholders which was not agreed by the SEBI.

Rating agency ICRA 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. The company's liquidity position is stressed, with operating losses, high debt levels and a negative networth.

Jet posts ₹587.7 cr loss in Q3

Mumbai: Jet Airways has reported a loss of Rs 587.77 crore for the quarter ended December 2018 as against a profit of Rs 165.25 crore in the same period of last year. Total income was at Rs 6,198.3 crore as against Rs 6207.8 crore a year ago. Fuel expenses increased to Rs 2,387.7 crore from Rs 1,840 crore last year. The current liabilities exceed current assets by Rs 9610.16 crore. **ENS**

'CARELESS, UNAWARE EMPLOYEES TOP VULNERABILITY FOR RISING CYBER RISK EXPOSURE'

"Careless or unaware" employees have been rated as the biggest vulnerability for increased risk exposure of enterprises, followed by factors like outdated security controls and unauthorised access, according to the EY Global Information Security Survey 2018-19 India edition which includes responses from 230 C-suite leaders from various organisations in India across sectors

32% respondents attributed "careless or unaware employees" as the leading vulnerability with the most increased risk exposure over the past 12 months

Outdated security controls (21 per cent), unauthorised access (19 per cent), related to cloud computing use, smartphones/tablets and social media (8 per cent each) and related to Internet of Things (4 per cent) were the other factors

87% of the organisations (surveyed) in the technology sector and 70% in the telecom sector put careless employees as the most likely source of attack, with the fear of losing their most valuable information — personal identifiable information of customers

70% of the organisations said they plan to increase their cybersecurity budgets next year, but only 19% said they have sufficient budget to provide the levels of resilience required.

Spending on cybersecurity depends on various factors including size of the organisation and scope of work, while it ranges between 3.5-8.5% of the annual tech budget

Firms have enhanced security spending by 15-20% over the last year

62% of the boards in India are taking active steps to strengthen their cyber security understanding, but only 46% of boards have a comprehensive understanding of information security

Expert committee recommends ₹9,750 monthly national minimum wage

AANCHAL MAGAZINE
NEW DELHI, FEBRUARY 14

Panel suggests five regional minimum wages between ₹8,892-₹11,622/month

A UNIFORM national minimum wage of Rs 9,750 per month or region-wise minimum wages ranging from Rs 8,892-Rs 11,622 per month for five regions (as of July 2018) have been recommended by an expert committee on determining the methodology for fixing the national minimum wage. The recommendations could form the basis for a national minimum wage in the country covering all workers — irrespective of their skills, sectors, occupations and rural-urban locations.

The report of the 7-member expert panel, which was submitted in January and made public for consultations on Thursday, has also recommended an additional house rent allowance, averaging up to Rs 55 per day, that is, Rs 1,430 per month for urban workers over and above the national minimum wage saying house rent accounts for a significant proportion of the overall non-food component. This city compensatory rent allowance, however, may be allowed to vary in accordance with the type of city and town, the panel has suggested along with recommending a separate study to be undertaken to determine city compensatory rent allowance by type of city and town.

The committee is of the view that the single value of the national minimum wage for India should be set at Rs 375 per day or Rs 9,750 per month. Alternatively, it has also recommended setting the national minimum wage for five different regions with diverse socio-economic and labour market situations for Region I at Rs 342 (Rs 8,892 per month), Region II at Rs 380 (Rs 9,880 per month), Region III at Rs 414 (Rs 10,764 per month), Region IV at Rs 447 (Rs 11,622 per month) and Region V at Rs 386 (Rs 10,036 per month).

Region I includes Assam, Bihar, Jharkhand, Madhya Pradesh, Odisha, Uttar Pradesh and West Bengal; Region II includes Andhra Pradesh, Chhattisgarh, Rajasthan, Jammu & Kashmir and Uttarakhand; Region III includes Gujarat, Karnataka, Kerala, Maharashtra, Tamil Nadu; Region IV includes Delhi, Goa, Haryana, Himachal Pradesh and Punjab and Region V includes Arunachal Pradesh, Manipur, Meghalaya, Nagaland, Sikkim, Mizoram and Tripura.

The government had introduced a Code on Wages Bill in Parliament in August 2017, which will amalgamate the four central labour laws relating to wages: The Payment of Wages Act, 1936, The Minimum Wages Act, 1948, The Payment of Bonus Act, 1965 and The Equal Remuneration Act, 1976. The first among the four labour codes proposed by the government, the Bill recommends the introduction of a binding 'National Minimum Wage', implying fixing a single national minimum wage — or different national minimum wages for different states or geographical areas and once the quantum is announced, "no state [could] declare a wage lower than the National Minimum Wage". The panel, headed by Dr Anoop Satpathy, Fellow, VV Giri National Labour Institute, was set up by the Ministry of Labour and Employment on January 17, 2018, to undertake an evidence-based analysis to determine methodology for fixing national minimum wage.

For estimating national minimum wage at the regional level, the panel has recommended using the nationally representative food basket for all regions instead of estimating and using regional representative food baskets for each of the five regions. "This will help dissociate the consumption pattern from the level of poverty and ability to pay in a region, while maintaining the palatability of the food basket," it said. The committee has also recommended adopting an approach that would focus on a balanced diet rather than merely its calorie intake that should not only concentrate on the minimum requirement of calories but also on the minimum requirement of protein and fats.

Given the changes in the population's level of activity, implying a reduction in the proportion of workers engaged in heavy work and an increase in the number of workers in moderate and sedentary occupations, it has also recommended setting the minimum wage at a level that would allow for a minimum recommended intake (per adult person per day) of 2,400 calories, 50 grams of protein and 30 grams of fats. The report has been put in public domain for consultations till February 28.

Amid trade tensions, US & India say will focus on collaboration

ENS ECONOMIC BUREAU
NEW DELHI, FEBRUARY 14

COMMERCE MINISTER Suresh Prabhu and US Secretary of Commerce Wilbur Ross on Thursday expressed a resolve to work together to consider recommendations pertaining to several sectors where the two countries can improve collaboration. The development comes amidst rising trade tensions between the two economies over the last year.

During a telephonic conversation on various aspects of trade and commerce relations, Ross assured to further strengthen ties between the two countries, stated an official release on India-US Commercial Dialogue and India-US CEO Forum.

The US Commerce Secretary, who was to be in India for the dialogue, cancelled his flight late on Wednesday, citing "inclement weather" and "logistical issues" as well as technical problems.

Tata Sons chairman N Chandrasekaran and American Tower Corporation president and CEO James D Taiclet, both chairing the CEO Forum, provided recommendations to improve collaboration on energy, water, environment, information and communication technology, emerging technologies, digital infrastructure, entrepreneurship and inclusive growth, promoting small business, and infrastructure and manufacturing. Ross addressed the CEO Forum by video while US Ambassador to India Kenneth Juster led the delegation on the ground.

India and the US also expressed interest in facilitating partnerships among businesses and institutions with a view to encourage best practices, conducive policies, and collaboration for small and medium enterprises in both countries. Both sides also agreed to work together to promote innovation, creativity and technological advancement, noting India's accession to the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, stated the release. Tensions between India and the US have been on the rise recently, due to factors like India's potential removal from the US' Generalised System of Preferences programme and the country's tariffs on goods like steel and aluminum last March.

Washington has held a negative view of India's trade deficit with the US, which has come under sharp focus in the last couple of years. In April 2018, the office of the US Trade Representative announced that it was reviewing India's eligibility for GSP based on concerns about its compliance with the program. "For India, the GSP country eligibility review is based on concerns related to its compliance with the GSP market access criterion," stated the USTR in its release.

On the other hand, the US is upset with India's move to tighten its foreign direct investment norms for the e-commerce sector, which dealt a blow to American retail giants like Amazon and Walmart as they would have to change their model of operations.

Other moves, like India's decision to cap maximum retail prices of essential and life-saving medical devices like cardiac stents and knee implants in 2017 had also irked US in the past.

China, US open trade talks

New Delhi: US and Chinese negotiators opened talks on Thursday on a sprawling trade dispute as Beijing reported its January exports rebounded despite President Donald Trump's tariff hikes.

Trump said earlier the talks could help decide whether he escalates the fight over China's technology ambitions by going ahead with more penalty duties March 2 on $200 billion of Chinese goods. **AP**

EU COPYRIGHT DEAL

Google, FB, others will need to share revenue with creators

REUTERS
BRUSSELS, FEBRUARY 14

THE EUROPEAN Union is set to rewrite its two-decades-old copyright rules which will force Google and Facebook Inc to share revenue with the creative industries and remove copyright-protected content on YouTube or Instagram. Negotiators from the EU countries, the European Parliament and the European Commission clinched a deal after day-long negotiations.

The commission, the EU's executive body, launched the debate two years ago, saying rules needed to be overhauled to protect bloc's cultural heritage and make sure that publishers, broadcasters and artists are remunerated fairly.

"Agreement reached on #copyright! Europeans will finally have modern copyright rules fit for digital age with real benefits for everyone: guaranteed rights for users, fair remuneration for creators, clarity of rules for platforms," EU digital chief Andrus Ansip tweeted.

Under the new rules, Google and other online platforms will have to sign licensing agreements with rights holders such as musicians, performers, authors, news publishers and journalists to use their work online. Google's YouTube and Facebook's Instagram and other sharing platforms will be required to install upload filters to prevent users from uploading copyrighted materials.

Goyal asks banks to meet realty companies within a fortnight

Relief expected for the real estate sector in the upcoming goods and services tax council meeting likely to be held on February 20

ENS ECONOMIC BUREAU
NEW DELHI, FEBRUARY 14

FINANCE MINISTER Piyush Goyal Thursday asked banks to meet real estate sector's representatives within the next fortnight to discuss the sector's issues along with indicating a relief to the sector in the upcoming goods and services tax (GST) council meeting.

"There is a real (funding) problem (being faced by the realty sector)," Goyal said at a Credai event here, adding that banks should take some initiatives to assess projects and fast track genuine ones. He suggested that within the next 7-15 days the Indian Banks' Association (IBA) has a meeting with the real estate players to help increase funding to the sector.

Goyal further said the government has announced a number of measures in the interim Budget to push growth in real estate sector. The sector has been facing funding issues post the default on debt papers by Infrastructure Leasing & Financial Services (IL&FS), which choked lending for the sector as a whole. "Prime Minister (Narendra Modi) has had extensive discussions with your representatives...Prime Minister personally has tried to understand and in the interim Budget while we didn't change too much, our real proposals will come in July after we will see with your blessings...but the only area we focused on was the housing sector, the affordable housing sector, we have made a few modifications...hope they will help in encouraging growth in the sector," he said.

He said the government is also reviewing the GST structure for the real estate sector. "And most importantly the Prime Minister guided us that we must re-look at the GST structure. We are having extensive discussions. In fact, the last time around we would have been able to finalize it but for some different viewpoints that came from different sectors...the final consensus by the GoM will be liked by you all and a meeting of GST Council has been called soon. I hope we will find a solution and you all will get benefit of it. Maybe some individuals will feel 1 or 2 per cent more or less, but my request to you is that you accept it when it gets ready," he said.

GST Council is likely to meet next on February 20. The Group of Ministers (GoM), under Gujarat Deputy Chief Minister Nitin Patel, set up last month to analyse tax rates and challenges being faced by the real estate sector under the GST regime is looking in favour of lower rates for under-construction residential properties. The panel has favoured lowering the GST rate on under construction residential properties to 5 per cent (without input tax credit) from the present effective rate of 12 per cent with input tax credit (after abatement of land) and for affordable housing to 3 per cent from the current rate of 8 per cent.

The effective pre-GST tax incidence on such housing property was 15-18 per cent. GST, however, is not levied on buyers of real estate properties for which completion certificate has been issued at the time of sale. There have been complaints that builders are not passing on the ITC benefit to consumers by way of reduction in price of the property after the roll-out of the GST. The government has taken measures to ensure that real estate business is done in a transparent manner.

"These four years may have had some pain points, any change is difficult in the beginning, it's not easy to reorient the way businesses are run for 40 or 50 years but I am delighted that all of you are participated in that change with enthusiasm ...," he said.

E. EXPLAINED

Sector in focus for role in pushing growth, jobs

THE RENEWED focus of the government on real estate and housing sector has brought into light the role of the sector in pushing economic growth and creating employment opportunities.

While a series of measures were announced in the interim Budget to make home purchases attractive and to alleviate stress of developers, the GST Council is expected to take up the pending issue of tax on under construction residential properties.