The rise, the fight and the fall of Jet Airways

If the fight had been handled differently, the fall need not have happened

OUT OF THE BLUE

ANJULI BHARGAVA

As the Jet Airways saga appears to be drawing to a close, it may be worthwhile to try and understand what went wrong. When did things slip so out of control ? This is the question industry, passengers, frequent fliers, businessmen in the country and practically anyone who has flown is asking: Whatever happened to Jet Airways? Since I have been writing on aviation for a while now, I am constantly asked why and why now by all and sundry.

It may be worthwhile to try and answer this. First and foremost, there's nothing sudden about the turn of events. Jet Airways has been facing financial turbulence ever since the low fare revolution hit Indian skies. There have been at least three clear instances — 2008, 2012 and 2018 — when the carrier has failed to pay its own employees on time and tried to cut staff numbers. The 2008 episode was a public relations disaster for the airline, with the promoter subsequently apologising on national television. Being broke has become business as usual.

As I see it, Jet Airways' 25 year journey can be seen in terms of three clear stages: The rise, the fight and the fall. **The rise (1993-2003)**: Naresh Goyal was the man of the moment. His first aircraft landed in the presence of JRD Tata. Jet built an excellent airline product and service, had some of the best-trained cabin crew, pilots and engineers. The aircraft had a brand new feel and the crew had class, a polish that is largely missing today. Its business class was coveted, with a long list of loyal fliers. The airline offered the best lounges, attractive offers on its frequent flier programme and an impeccable service on board with a reliable and on-time service. It offered fierce competition to both the state owned Indian Airlines and a few other competitors who were in the fray. By 2003, Jet Airways had 41 of the latest aircraft and had risen to become India's preferred and best airline, with a series of firsts attached to its name.

The fight (2004-10): Jet's troubles began when Air Deccan and others entered the Indian market. The airline was a full service carrier offering all the luxuries that were associated with making flying pleasurable. Costs were built in from scratch. But once the low fare rivals came in, Jet was forced to sell at uncompetitive fares. It's like building an Oberoi or Taj room but selling it at OYO rates.

In 2004, Goyal took a decision to go international, a smart and calculated move but one he failed to fully capitalise on. If he had been less paranoid about competition at home, Jet may well have been a serious international airline operating from India today. It could have worked out arrangements with other domestic players to feed traffic into its hubs and carried passengers out — much like an Emirates or a Singapore Airlines.

But Goyal was unwilling to concede defeat on domestic sectors. That led him to make the biggest mistake — buying Sahara in 2006-07 for an absurd price — more to thwart arch rival Vijay Mallya than adding any real value to his own business. In other words, an overriding ambition to rule the domestic skies prevented Jet Airways from becoming a strong and formidable player in the international market. The Sahara buy added to the complexity of its operations and a dilution of what the airline stood for. Jetlite, JetKonnect and later the merger of these two reflected the confusion.

The fall (2011-19): Even as late as the third quarter of 2010, Jet was the largest airline in India with a share of 22 per cent. It is from this point onwards that things began to spiral downwards. Had Goyal at even this stage realised the opportunity he had, Jet Airways could have emerged as primarily a leading international carrier out of India. But post 2011, it was almost like Goyal was stumbling from one crisis to another. Jet appeared to lose direction and it certainly lost speed. While its international operations did not consolidate into anything substantial, the domestic operations continued to dither and bleed. This is what eventually led to the sell-out to Etihad.

In 2019, the Jet of 1993 is no longer traceable. The battle seems to have been lost.

CHINESE WHISPERS

Alliance woes

The Congress' woes at forging alliances are unending. Just when it seemed it would strike an amicable pre-poll alliance in Karnataka with the Janata Dal (Secular) [JD (S)], the talks ran into fresh trouble. The Congress was agreeable to following the 'one third-two third' formula to give JD (S) nine seats, while it contested 19 of the 28 Lok Sabha seats in the state. But fresh fight erupted over the choice of seats. With Congress leader and former chief minister Siddaramaiah (*pictured*) leading the way, the Congress was unwilling to part with the Mysuru and Tumkur seats. The JD (S) argued that it currently held four Assembly constituencies of the Tumkur seat while the Congress holds only one. Similarly, the JD (S) claimed Mysuru for itself, it being the traditional seat of the H D Deve Gowda family, while the Congress was the runner-up in the seat, won by the BJP in 2014.

Batting for Hindi

The Centre for Cultural Training and Research, which operates under the aegis of the Ministry of Culture, has announced cash prizes for employees who use Hindi at work. According to an official note circulated by the director in charge, employees who have done at least five notings per day or 300 notings and/or official letters per quarter are eligible to send their entries. The note also said increasing the use of Hindi while carrying out their official duties would fetch employees brownie points in their annual performance reviews. Each entry will have to be attested by a senior official. The notice, however, does not mention how the entries will be scrutinised to create a shortlist and eventually pick the winners.

Many challenges

It is not even 24 hours since the Election Commission of India (ECI) announced the polling dates for the Lok Sabha elections and the bypolls in Tamil Nadu, but petitions have started flooding the Madras High Court, challenging the various announcements. One petitioner alleged that despite the Code of Conduct coming into effect on Sunday evening, advertisements were being played over FM channels in which the achievements of the Central government were being touted as achievements of the Bharatiya Janata Party. Another petition sought the transfer of Tamil Nadu Director General of Police T K Rajendran before the state goes to the polls. A third petition sought a change in the date of election in the Madurai constituency (April 18) because it clashed with the Chittirai festival. In another petition, Dravida Munnetra Kazagam leader Saravanan from Madurai urged the Madras High Court to deliver its verdict on his petition asking why the polling date for Tirupparankundram Assembly seat had not been fixed along with the election for the other 18 seats. Saravanan alleged the ECI had deliberately postponed the bypoll.

Jawa rides on an old feeling

The initial response to the iconic bike of the 1960s has been overwhelming, but delivering on the brand promise will determine its future success

SHALLY SETH MOHILE

Hironmoy Chatterjee, 83, reminisces about his Jawa fondly. "It was like riding a horse. It would go on and on," says the Kolkata-based octogenarian, who owned the iconic bike in the 1960s. At ₹3,600, the price tag was a princely sum back then, and he had to borrow from friends and family to buy it. Chatterjee worked at the Bhilai Steel Plant in Madhya Pradesh, but he would often ride his bike to Nagpur— 250 km each way —just to meet friends.

TAKE TWO

There is a fair chance that anyone who ever owned a Jawa, regardless of their age, will have a similar story, even though the brand went into oblivion nearly 40 years ago in the country. This is the lingering memory on which Classic Legends, majority owned by Mahindra and Mahindra, is riding as it seeks to revive the brand. It believes stories of the past and those that will be shared by future owners of Jawa are what will resurrect the brand.

"We are storytellers," says Anupam Thareja, founder and managing partner of Phi Capital, who is an investor, along with Boman Irani, chairman and managing director of Rustomjee group, in Classic Legends. "We are a high-involvement, emotive automotive brand. It has to be built on stories, therefore our focus will be user-created content," says he.

If the initial euphoria around Jawa's comeback is any indication, the company has hit bullseye. Barely a month after breaking covers, the models — the Jawa, the Jawa 42 and the Perak — were sold out. In December last year, Classic Legends announced the models are booked till September 2019. The initial estimates show the three-year-old firm has garnered bookings in excess of 100,000 units. The deliveries will begin some time later this month.

But it is just the start of the journey. Classic Legends now has to deliver the brand promise, and the criticality of living up to the commitment is not lost on Thareja, the founder of Classic Legends. He and his team have been living out of their back-packs, opening five to six dealerships a day to ensure the tally crosses 100 by the time the delivery of the models starts. The number currently stands at 86. "When you buy a brand, it should be about a product that delivers its promise to the consumers," says the venture capitalist-turned-entrepreneur.

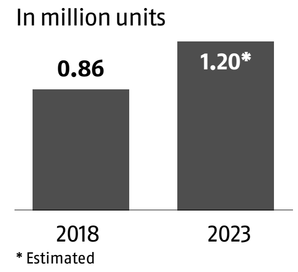
With prices starting from ₹1.55 lakh onwards, Jawa Motorcycles are positioned in the so-called middle segment (250cc to 750cc), which accounts for 5 per cent of the motorcycle market in India but is expected to grow at a brisk pace. So far, the segment has been the stronghold of Royal Enfield, which is credited for creating this category. In calendar year 2018, close to 860,000 units were sold in the mid-segment, according to sales forecast and market research firm Emerging Markets Automotive Advisory or EMAA, and it is expected to touch 1.2 million units by 2023.

PIT STOPS

- **October 25, 2016:** Mahindra notifies exchanges regarding its newly formed subsidiary, Classic Legends
- **November 15, 2018:** Classic Legends commences bookings of Jawa models
- **December 26, 2018:** Bookings close as models sold out till Sep 2019
- **March 2019:** Start of delivery of models
- **Current no. of dealerships:** 86

Mid-size motorcycle market in India

In million units



Encouraged by the success of Royal Enfield, several others including Harley Davidson, Triumph, and BMW Motorrad are gunning for a pie in the segment. While BMW Motorrad and Triumph have agreements with home-grown brands TVS Motor and Bajaj Auto, respectively, Harley Davidson plans to develop an India-specific model to address the segment. But even though the market appears to be growing crowded, there will be enough for all the brands given the minor differentiated positioning each will have, says Deepesh Rathor, managing director and co-founder at EMAA.

"For now, everything seems to be working for Jawa Motorcycle. They have the deep pockets and the backing of Mahindra. They have a brand which is fondly remembered in parts of India. The product reviews have been very positive," says Rathor. The only challenge, he points out, is production which is related to the ability of the suppliers to ramp up quickly. It's critical that it happens fast as people are waiting for the bikes to be delivered. "They will have to overcome production quickly as buyers of premium products don't like to wait," he adds. EMAA forecasts that Jawa will deliver close to 45,000 units by the end of the current calendar year.

Thareja wouldn't disclose the number of bookings, but says a lot of work went behind the scenes to make the brand a success. "The overnight success," he says, "hasn't come easy and comes on the back of years of hard work and toil." From buying the brand to making the team and defining the design language, all of it was based on extensive market research. Given the importance of design in today's day and age, the design team comprised motley group of people—an architect, a media personality, a TV personality, a watch designer, he says. "Everyone who had a nose for good things in life and was an expert in their field came in and lot of thought went into every aspect, from the fuel cap to chrome and choice of colour. It was a design-led project with humungous engineering and support from a group like Mahindra," says Thareja.

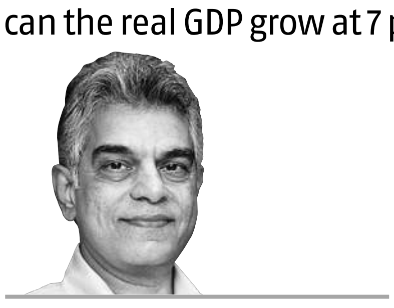
Serendipity and paranoia are the operative words for Classic Legends, which owes its genesis to a lunch meeting between Anand Mahindra, chairman Mahindra Group, Pawan Goenka, managing director, M&M and Thareja. Mahindra was keen to re-enter the two-wheeler market after its initial bid failed. When Mahindra sought Thareja's views on what the company should be doing, Thareja said given Mahindra's brand heritage it should have been in a retro classic category that comprises brands like Harley and Royal Enfield. It should get Jawa. The rest, as they say, was history. Thareja bought Jawa and BSA and a new company called Classic Legends that would house the premium brands was floated.

As the Jawa story moves forward, Classic Legends hopes it will resonate not only with potential owners but also with erstwhile owners like Chatterjee.

ON THE JOB

Answering questions on jobs

When there is no growth in jobs for several years, how can the real GDP grow at 7 per cent per annum?



MAHESH VYAS

Last week's column announcing that the unemployment rate had reached 7.2 per cent led to a flurry of television interviews on the issue of jobs in which many anchors asked important questions. While I did answer them on air, a re-cap seems to be in order.

Does the CMIE survey include people who work in the unorganised sectors? Does it include informal jobs or the new age jobs like Ola and Uber taxi operators or Swiggy delivery boys?

The answer to all of the above is an unequivocal and unambiguous 'yes'. The survey includes all kinds of jobs. The reasoning is very simple and should dispel all doubts. CMIE's Consumer Pyramids Household Survey (CPHS) is conducted in households selected through a stratified random sample selection process. This process, combined with a reasonably large sample size (over 174,000 households) ensures good representative inclusion of all kinds of households.

Now, all those Ola and Uber operators and Swiggy delivery boys, all the *pakora*-frying street hawkers, agricultural and industrial labourers, entrepreneurs and of course also the organised sector workers —all live in households. Since this is a household survey, they are all covered. Unless, of course, any of them live on trees.

Is a sample size of 174,000 households adequate to represent the country of 240 million households?

People who are not trained in probability and statistics may wonder how a sample of 174,000 households can give fairly accurate population estimates involving about 240 million households. But it does, and reflects mankind's mathematical genius. This is the method used by developed countries to measure unemployment. And, it is the only method by which any society can measure unemployment.

Magically, statistical theory tells us that the proportion of households in the sample is not important. The size of the sample does matter but only upto a point and then there are diminishing returns to increasing the sample size. What is important in a diverse country like India is to select an appropriately stratified sample and ensure that selection process is random. CPHS ensures these conditions are met.

Why not use a payrolls database that covers millions of jobs instead of a sample of less than 0.2 million households? And, what about the millions of jobs seen increasing in the EPFO database?

There are several problems with the EPFO, NPS and ESIC databases. There are duplications, for example. But, what is more pertinent is that EPFO only covers the organised sector which provides less than 20 per cent of all jobs. So, it cannot provide the complete picture. It is very likely that those Ola and Uber operators and Swiggy delivery boys are not covered under EPFO. Second, growth in EPFO is more likely a reflection of formalisation of jobs and not creation of new jobs on a net basis. When people working in unorganised sectors move to formal jobs, they show up in the EPFO database. But, when they do so, they do not join the stock of employed for the first time. They merely moved from an informal job to a formal one.

Developed countries use payrolls database to measure jobs created. That makes sense because they have moved jobs out of the unorganised sectors into the organised sectors — that maintain a payrolls database. It is foolish to emulate them without first shifting jobs to the organised sectors.

What about the millions of trucks, cars, three-wheelers being produced? Surely, they are creating jobs by the hordes. Why does that not show up in the CPHS results?

This is a typical cost-accountant's thinking. But, an economy is more complex than a factory. Those new truck drivers are mostly internal transfers -- to use an accountant's terminology. Old drivers driving new trucks, old helpers becoming drivers and agricultural labourers becoming truck helpers. Then, 80 per cent of the new cars are the small cars which are mostly self-driven. The only way we can find out whether, on a net basis, we are creating new jobs or merely shifting jobs from one sector to another is to conduct a household survey. And, the household surveys tell us loud and clear that on a net basis we are not creating new jobs.

But when GDP growth is 7 per cent per annum, how can there be no employment growth?

It's high time we now turn this question on its head — when there is no growth in jobs for several years, how can the real GDP grow at 7 per cent per annum? There is credible evidence from NSSO and CMIE that unemployment has risen and jobs are stagnant. The CSO needs to explain, in detail, its GDP growth calculations in the face of these facts.

The author is the MD & CEO of CMIE

LETTERS

Amma versus *appa*

It was amusing to read the Chinese Whispers item, "When Modi became 'daddy'" (March 11). The Dravidian politics was always a bit strange and now it is turning comical. It first came up as Dravida Munnetra Kazhagam (DMK) led by various leaders and then following a vertical split, the new outfit All India Anna Dravida Munnetra Kazhagam (AIADMK) tried to give an impression that they were the real followers of the great C N Annadurai. After the demise of MGR, *Anna* was forgotten with J Jayalalithaa turning *amma* for all followers. Until her demise, it was, quite literally, the All India Amma Dravida Munnetra Kazagham.

Now that they have tied up with the Bharatiya Janata Party, the AIADMK Minister for Dairy Development, K T Rajenthra Bhalaji (*pictured*), has declared Modi as their daddy (*appa* in Tamil) and that of our country. In 2019, the party can be now termed as the All India *Appa* Munnetra Khazagam. People of Tamil Nadu will get to know whether amma's party joining *appa* is right or wrong on May 23.

N Nagarajan Secunderabad

Black money enigma

This refers to your first page report "Minutes: RBI had warned against govt against demonetisation" (March 11). The report states that the Reserve Bank of India (RBI) thought "most of the ill-gotten wealth is stashed in assets such as gold and real estate."

As a Chartered Accountant in taxation, I disagree with this in all humility. First, the RBI is not an expert in black money and I do not blame them for giving an opinion which touched the surface only. Second, black money is not a static phenomenon. It is generated every day, finding its way into gold, real estate and business. Third, if black money has been stashed away in gold and real estate, these assets would have been acquired through cash black money. Fourth, black money comes as Black Label and Double Black Label. Black Label is generated by dodging taxes and these generally remain in business as bloated working capital. Double Black money is ill-gotten money, which is stashed away in gold, real estate, Swiss banks or foreign currencies, and finds its way to illegal assets, which sleep and don't work.

What demonetisation has done is it has forced ownership of every single rupee in the monetary system. Now that every single rupee has an owner, he will have to explain where the money came from. Prior to demonetisation no one claimed ownership of the black money. That the economy and business in general had slowed down after demonetisation is proof of the success of demonetisation.

Deba Pratim Ghatak Durgapur

Games people play

Apropos the Chinese Whispers item "Will Sonia intervene?" (March 11). It was quite interesting to learn that the Congress party's top leadership is keen on an alliance with the Samajwadi Party and the Bahujan Samaj Party in Uttar Pradesh. Has the party's leadership realised the folly of going alone in this key state? What else would explain the party going to the extent of sending its emissaries to the two parties seeking their blessings? It's a different matter that both the SP and the BSP have interpreted the despatch of junior leaders to mediate as a sign that the Congress is not serious.

Curiously enough, senior Opposition leaders including N Chandrababu Naidu, Sharad Pawar and others have also been batting for the Aam Aadmi Party since several party leaders, including Delhi unit chief Sheila Dikshit, are unwilling to listen to Congress President Rahul Gandhi. The situation has now become something like "Modi vs all others" as was once the case with former Prime Minister and the Congress party's late leader Indira Gandhi after the 1975 Emergency.

S Kumar New Delhi

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HAMBONE

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Poll positions

The election schedule reflects India's problem areas

Lasting over 39 days and covering seven phases between April 11 and May 19, the elections to the 17th Lok Sabha and four Assemblies mark the longest since electronic voting machines (EVMs) were introduced in 1999. This is also the longest duration since newly independent India's first polls in 1951-52, which lasted four months, from October 25 to February 21. The obvious question is why this critical democratic process should take quite so long when India has in the past managed general elections in a much shorter time frame, that too using cumbersome ballot papers. Part of the answer, of course, is that the size of the electorate has expanded enormously, in keeping with India's consistent record as the world's largest democracy.

The electorate was 173 million in 1951; the 2019 exercise is expected to involve a staggering 900 million voters. Assuming a similar 66-odd per cent turnout as in the 2014 polls, this implies that some 594 million voters — more than the population of the world's most powerful democracy, the United States — will trudge to some one million polling booths in 543 constituencies from Kashmir to the Andaman and Nicobar Islands to elect India's next government. This imposes far higher challenges on the Election Commission in terms of providing adequate poll infrastructure and security arrangements. The long process could have been reduced but for the average seven-day gap between each phase of elections. This leads to the unnecessary headache of deploying officials to guard the strong rooms where the EVMs will be kept.

The poll schedule also offers an interesting snapshot of at least one aspect of governance in India, or the lack of it. It is easy to see why Uttar Pradesh, with 80 seats — the highest number in the Lok Sabha and spread over 240,000 square km — should entail seven phases of elections. But the timetable for some other states appears unusual. For instance, Maharashtra, with 48 seats, over 300,000 square km, will see four phases. Yet the polls in West Bengal, with 42 seats and covering 88,000-odd square km, will be conducted in seven phases. The same goes for Bihar, with 40 seats and covering roughly 94,000 square km. Jharkhand, with 14 seats and covering 79,000 square km, will also require four phases as will Madhya Pradesh (29 seats, over 300,000 square km) and Odisha (21 seats, over 150,000 square km). In sharp contrast, Tamil Nadu with 39 seats and covering 130,000 square km, Andhra Pradesh with 25 seats (over 160,000 square km), and Telangana (17 seats; over 112,000 square km) will have a single-phase poll.

The answer to such asymmetries lies, of course, in the law and order issues in these states. West Bengal and Bihar have well established reputations for regularly surpassing their own records as far as political violence is concerned. The extraordinarily brutal murders of Bharatiya Janata Party workers in West Bengal in 2018 suggest that the 2019 elections in that state, where communal tensions have been fuelled by both main contending parties, will be anything but peaceful. In Jharkhand, Madhya Pradesh and Odisha, Maoist unrest, which neither successive state nor the central governments have found a viable way to address, raises unique security challenges for the Election Commission, aptly captured in part by the 2017 hit movie, *Newton*. The same issue, considerably magnified of course, assails Jammu & Kashmir, which will have the piquant situation of having five electoral phases (between April 6 and May 6) for its six Lok Sabha seats. Law and order, thus, clearly explains why India needs such a long-drawn electoral process.

Wages and prices

Dealing with the causes of rural distress

A study of rural wages over the past five years in *The Indian Express*, using the Labour Bureau data, came to some worrying conclusions. Rural wages, both for non-farm and farm employment, have grown only 0.5 per cent annually in real terms over the five-year term of the National Democratic Alliance government. Altogether, rural wage growth, measured year-to-year in December each year, has been greater than rural consumer price inflation in only three of the five years. The trends are similar if only non-farm employment is considered. This is a serious sign of increasing farm distress, and needs careful attention from the next government. It also comes at a time when wholesale inflation in food and non-food items is diverging — a sign that the terms of trade have turned decisively against agriculture. In December 2018, wholesale inflation for food items was -0.07 per cent but it was 4.45 per cent for non-food items.

These trends should be seen in the context of what is known about their impact on poverty alleviation in rural areas in India. Research published in the *Economic and Political Weekly* of September 30, 2017, by Seema Bathla and others isolated those factors most likely to reduce poverty. Using a structural equation model for the three decades prior to 2014, the impact of various factors on poverty reduction in rural India was estimated. The results were stark: To quote the authors: "Agricultural productivity facilitated by better rainfall conditions, remunerative farm prices, and non-farm employment at better wages have been the main sources of poverty reduction in rural areas during the period from 1981 to 2014." It is worth noting, therefore, that two of the crucial elements for poverty reduction have thus been absent in the past five years — remunerative farm prices and increasing non-farm wages. There have also been two strongly substandard monsoons, and an increasingly unreliable pattern of rainfall. The authors also found that the world price of commodities had a strong and significant impact on terms of trade for Indian farmers, indicating that the agricultural sector is in fact relatively globalised through the price system.

The government will need to examine how this state of affairs can be remedied. Non-farm employment in rural areas clearly needs a boost — historically wages for non-farm employment have been boosted by spending on health and education. The focus now needs to be on quality assurance in these sectors, particularly when it comes to public provision of these services. But the question of agricultural prices and terms of trade also needs to be considered. In particular, trade policy needs to become pro-farmer. Farmers need to be allowed to take full advantage of increases in world prices rather than having their access to world markets cut off suddenly whenever there are questions about food price increases in urban areas. Properly working commodity markets that are globally integrated and allow for various forms of insurance and hedging must be priority.

ILLUSTRATION: AJAY MOHANTY

Global investment return conundrum

It is surprising to see equities underperform bonds for 19 years, of which the last 10 have been an equity bull run

I had the opportunity to read the latest *CS Global Investment Returns Yearbook 2019*, produced by the Credit Suisse Research Institute. As always, it was a fascinating read, full of data and insight. This year's issue had some additional data on the Emerging Markets (EM) and was therefore even more relevant.

On EM, the report looked at data from 1980 onwards and made some interesting observations. Firstly, when looking at the current construct of the MSCI EM index, you realise that out of 24 countries in the index, only six matter. The combined weights of China, Korea,Taiwan, India, Brazil and South Africa are nearly 80 per cent. Asia by itself has almost a 75 per cent weightage in the index, making all the other regions almost inconsequential. China at an index weight of almost 33 per cent (will soon rise to over 35 per cent in 2019 with greater inclusion of the A shares) also dominates the index. What you realise also is how much the EM investing world has changed over the last 30 years. At its inception in 1988, the MSCI EM index had Malaysia as its largest constituent, with a weightage of over 33 per cent. The next biggest markets were Brazil with a weightage of 19 per cent, followed by Thailand and Chile at 9 per cent. Except Brazil, all these markets are irrelevant today. There was no India or China in the index. China entered the EM index only in 1996, with a weightage of less than 0.5 per cent. How much things have changed! In terms of long-term performance, since inception in 1988, the EM index has delivered a gross return in USD of 10.67 per cent annualised compared to 7.8 per cent for the MSCI World index. Versus the US, performance is very similar for both these indices.

AKASH PRAKASH

The report also charts the growing economic importance of the EM countries. From 1980 to 2018, the share of the EM countries has grown from 25 per cent of world GDP (on PPP basis) to 50 per cent today. Even as a share of world GDP on market exchange rates, these same EM countries now account for 35 per cent of world GDP, up from 18 per cent in 1980. These countries have about 60 per cent of the world's population. Yet despite their growing clout in economic and demographic terms, they only account for 11.5 per cent of world investable market capitalisation. Undoubtedly, this number has multiplied from about 2 per cent of world investable market capitalisation in 1980, but even at 11.5 per cent, the EM world is significantly underrepresented. What is also odd is that the weightage of world market capitalisation for these 24 large EM markets has been stuck at approximately this 11.5 per cent level since 2007. There has been no further progress or gain in share for the last 11 years. This stagnation has happened largely due to the underperformance of EM equities compared to developed market equities of nearly 55 per cent over the last 11 years. This underperformance is actually almost entirely versus US equities. As compared to world (ex US), EM performance is very much in line. Therefore, even though we have seen greater equity issuances in the EM universe through privatisation, IPOs and follow on offerings, the corresponding increase in market capitalisation and investable universe has not been large enough to compensate for the market underperformance. This will change over the coming decade, and one would expect the long-term trend of a rising share of global equity market capitalisation for EM should resume.

The report also tries to explain what are some of the reasons for the low weightage of EM equity markets in global indices. The reasons really come down to adjustments the index providers make to various equity markets to better reflect the actual investable universe available to investors. MSCI, for example, till 2018, did not include the China A share market in its calculations for China weightage, arguing that the markets were too difficult for global investors to access. This changed in 2018, with MSCI partially including the local China equity market, and their full weightage will get reflected over time. MSCI also adjusts markets for free float. If we see the top EM markets their average free float is only about 40 per cent, compared to 90 per cent for the developed world markets. MSCI also chooses to omit certain stocks because of free float and liquidity concerns. These omissions are far more prevalent in the EM world. Had the index providers not made all these adjustments, already today, instead of 11.5 per cent, the weightage of the EM world in global indices would be close to 25 per cent. India in fact suffers very badly from the free float adjustment, with MSCI adjusting our market capitalisation sharply downward to reflect the low free float of our listed universe. This is something we need to address if we ever want to get India closer to its fair weightage in the relevant indices. A weightage better reflecting the size and clout of our economy and markets.

The report then goes on to look at long-term asset returns across most global markets. This is probably the longest duration and most comprehensive data series on financial asset returns produced by anyone.

Looking at long-term data for US financial assets, we come to some interesting conclusions. Taking the 119-year history from 1900 to 2018, equities in the US produced nominal returns of 9.4 per cent annualised, compared to 4.9 per cent for bonds and 3.7 per cent for bills(proxy for cash). Looking at real returns, equities delivered 6.4 per cent, bonds 1.9 per cent and bills about 0.8 per cent. Equities were far and away the best performing asset class over this period. Just to give a sense of scale, in real terms $1 invested in equities in the year 1900 would be worth more than $1,500 by the end of 2018. For bonds the same $1 over the 119 years would be worth about $10 in real terms.

Equities outperformed bonds and bills in all markets, over the 1900 to 2018 period, and delivered positive real returns of 3 to 6 per cent across all major markets. What is however surprising is that since the year 2000, across all the major markets, equities in real terms have underperformed bonds. A total reversal of the long term picture. In the US, for example, since 2000, equities have delivered real annualised returns of 2.9 per cent compared to 4.6 per cent for bonds. In the UK, since the year 2000, equities have delivered real annualised returns of 2 per cent compared to 4.1 per cent for bonds. Admittedly, the starting point for this is the peak of the dot-com bubble, and thus you have a base effect to contend with, but still surprising to see equities underperform bonds for 19 years, of which the last 10 have been an equity bull run. You can see why many feel that we are at the end of a bond bubble and that bonds are the asset class which is absurdly overvalued not equities.

While this data may not be fully relevant for India, it is important to know to develop a sense of perspective. From a global and historical point of view what is a strong real return for equities? What level of equity risk premium is the minimum you should demand as an equity investor? As India continues to globalise, we will also most likely come into sync with these metrics with other markets around the world.

The writer is with Amansa Capital

Modi and Rafale: Ram to the rescue?

Prime Minister Narendra Modi should be thanking N Ram. The Hindu Group chairman and veteran journalist has provided the government, and particularly Mr Modi, a get-out-of-Rafale-jail-free-with-honour card through his disclosures. That, of course, was the farthest from Mr Ram's intentions. But the government lawyers seem unaware of this godsend, or else they would not have threatened to invoke the dreadful Official Secrets Act.

The Hindu revelations over the last several weeks are based on leaked documents. Reports of the Indian negotiating team (INT), dissenting minutes, and notings in the defence ministry files are among these. The instalment published on March 6, 2019, provides Rafale price details, including an oranges-to-oranges comparison of the present deal and the offer made to the United Progressive Alliance government (UPA). The government has so far refused to provide cost details citing security concerns. Its claim that it had negotiated a lower price than the earlier offer was shrouded in a needless and counterproductive fog. The rebuttals of this assertion were also based on conjectures and assumptions. Even the recent report of the Comptroller and Auditor General had conveniently masked the relevant information. Mr Ram's latest article makes possible an informed, fact-based, discussion.

SHREEKANT SAMBRANI

The INT used a construct of "aligned cost" to compare the NDA and UPA deals, according to *The Hindu* articles. Working out the aligned cost involved the prices of the basic aircraft and those of the various add-ons, including weapons systems and navigational and logistical aids. In essence, it meant a reworking of the last offer to the UPA for 36 Rafale aircraft for the same configuration as in the NDA deal and updated to 2016.

Cutting to the chase, Mr Ram cites the INT report saying that "The final offer of 7,878.98 M€ (excluding additional mandatory weapons supplies of 10.55 M€) is 327.89 M€ lower than the aligned cost of 8,205.87 M€." This is 4 per cent of the aligned cost. There is, however, a major catch. The NDA final offer is without a bank guarantee, while the aligned cost is with guarantee. To make correct comparisons, the cost of the bank guarantee needs to be worked out and taken into account.

The INT had estimated the guarantee cost to be 7.28 per cent of the value of the contract based on a communication from the State Bank of India. This amounted to 574 M€. Thus, the new contract cost including the guarantee would be 8,453 M€, or about 3 per cent higher than the aligned cost. Mr Ram then cites from the dissent note of some domain experts on the INT to the effect that the aligned cost could be further reduced to 7,486 M€ due to "optimisation of spare parts offered by the French party." The present offer with guarantee then becomes about 5 per cent higher than this revised aligned cost. Mr Ram calls this difference "substantial." P Chidambaram, in his column in *The Indian Express* (March 10, 2019), calls the guarantee charges "stiff."

Bank guarantee charges are often negotiable, depending on the nature and the size of the contract and the parties to the contract. A respected financial domain expert who is an independent director on the board of one of the largest private banks confirmed this to me. He suggested that in the instant case they could be as low as 5 per cent or even less. At 5 per cent, the imputed cost of a bank guarantee would be 394 M€, with the new contract value becoming 8,272 M€. That would be about 0.8 per cent higher than the aligned cost worked out by the INT.

The bottom line is that the present contract is between 1 and 5 per cent more expensive than the aligned cost, depending on which assumption is closer to the reality. Does this create an odour requiring a Supreme Court monitored investigation, as the petition before the court pleads? That would require a plausible suspicion, *çui bono* (who benefits) to be addressed. So far, investigations of neither Mr Ram nor various others have been able to establish even the slightest trace of a money trail, unlike in other well-known corruption cases.

The most likely reasons for the cost difference is obviously the bank guarantee forgone as well as the smaller size of the present order (the earlier one was three-and-a-half times as large). That in turn could be because the government was keen to establish a faster delivery schedule. The supplier, Dassault Aviation, is not among the largest or resource-rich corporates. It could find it well nigh impossible to meet tight supply targets without a sizeable advance from the buyer. Thin margins probably meant that it could not absorb the guarantee costs. The government therefore perhaps chose to forgo the guarantee for a post-haste contract execution. That could be a border-line unwise procedure, but hardly a case of corrupt practices or loss to the exchequer.

Finally, could the gist of the above have been disclosed right at the outset? Absolutely, and the Modi government could have saved itself many an embarrassing situation. Ancient wisdom has it that truth remains the best defence against allegations: Transparency works at all times, while any attempt to hide facts only breeds suspicions.

The writer is an economist

A hostage to Indian justice

BOOK REVIEW

VIKRAM JOHRI

M Chandrakumar was a 20-year-old worker at a teashop in Guntur in 1983 when he was arrested along with three other people on trumped-up charges of theft. In 2006, he wrote *Lock-up*, the searing account of his arrest and treatment by the police, which was made into a hit Tamil movie.

The book under review is a sequel to *Lock-up*, and is focused on his experience in prison. In quick chapters, Mr Chandrakumar narrates details of prison life, from the abysmal conditions of the jail cell to the omnipresent threat of violence. The tone is personal yet devoid of sentimentality.

Along with Nelson, Moideen and Ravi, all of whom worked at the same teashop run by a benevolent Muslim man, Mr Chandrakumar was lodged in Guntur central prison. His arrival there followed torture and beatings at the hands of a notorious police officer. In what is a painful reminder of Post Traumatic Stress Disorder, Mr Chandrakumar captures the continuing trauma he faced at the sight of this police officer.

The book is especially relevant in its lambasting of the justice system in which the poorest have no recourse but to wait their turn. Mr Chandrakumar is sent for multiple court appearances but his case does not come up before the judge. This is not merely due to the huge backlog of cases before the court but also because the police officer who tortured him has friends in the court who ensure that the hearing is delayed.

The prison is not merely a place where those on the wrong side of the law serve their sentences. It is a sort of sanctuary where one comes to follow a strict regimen, a disciplined life defined by regular hours and the provision of basic, if poor, facilities. On the other hand, it is also a place where one meets characters who have broken civil pieties and experienced the most intense hatreds.

Mr Chandrakumar brings both these aspects out. He learns in prison that the police beatings have left him fragile — his skin peels off and his body feels tried all the time. Yet, he refuses to sit in a corner for fear that he would get used to a life of no work. He works in the kitchen and learns the ropes of surviving in prison without compromising his dignity.

He also relates accounts of other prisoners. Two cases stand out, those of Kullaiyan and of Constable Alluri, both of whom had killed their lovers. Mr Chandrakumar describes the circumstances of these cases with a sometimes-disturbing eye for detail, meticulously reporting on the violence involved. But the larger focus remains on the psychological; Mr Chandrakumar has an arguably commendable tendency to report without judgement.

In spite of the grimness, *Prison Diary* is also hopeful for its chronicling of the strong bonds that form under the direst conditions. Each of the characters Kumar encounters in prison is described in detail, with his back story, his arrival in jail, and his eccentricities filling up the pages.

The most interesting portions of the book focus on the curious moral code that develops among prisoners when it comes to the bare necessities such as food or a *beedi*. A prisoner learns to share a solitary *beedi* with every member of his cell, and those who are on kitchen duty are expected to keep extra food for anyone who happens to arrive outside of normal hours. Mr Chandrakumar learns the high value placed on bathing in the prison, since the feeling of water on the body cleans away not just dirt but psychological scars.

Today, Mr Chandrakumar is an elderly auto-driver in Coimbatore who lives a life of relative anonymity. *Visaranai*, the film based on his life, became an international sensation after its release at the Venice Film Festival. But Mr Chandrakumar, transformed by his experiences, shuns celebrity and hopes that the message of his books would force a change in the system of justice delivery in this country.

At a time when senior judges as well as members of the government have spoken about the need to reform the justice system, *Prison Diary* is an important testament to the urgency of reform. The story of the most ordinary man who found himself stuck in the brutal wheels of justice, it is a frightening but ultimately uplifting saga of fate and perseverance.

THE PRISON DIARY OF AN ORDINARY MAN
M Chandrakumar (Translated by Raya Chellappa)
Westland Books
₹399, 269 pages